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MARKETING & MEDIA DECISIONS

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MEDIA COSTS '90

New twists in advertising's strategic role are changing the rules of media buying and selling. Some rates will be swept up in the storm.



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INTO
THE

WHIRLWIND

MARKETING & MEDIA DECISIONS

COVER STORY

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The sellers plan more aggressive rate increases next year than in the recent past, and some with justification. But buyers remain calm at the center of the whirlwind of options. After all, they control its course.

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BUSINESS·TO·BUSINESS

by Frank Sommerfeld

TALKING TO YOURSELVES

It's often the case that giant corporations' institutional advertisements are targeted at the companies' employees as well as their potential customers. To unite far-flung divisions and keep up employee morale, conglomerates with little or no consumer presence often go so far as to use prime-time tv to talk to both constituencies at once.

But this high-priced, inner-directed tv advertising can miss the mark, say those now shopping the alternatives. "Advertising on tv to reach employees is a stretch, no matter how big the company," says Rob Rappaport, president of The MultiMedia Group Inc., a Los Angeles firm specializing in internal corporate communications. There are many more efficient and effective ways for a company to tout its products and philosophies to its own people, he maintains.

Increasingly, corporations are checking out some of those options. The field of internal marketing has become one of the hottest and most sophisticated areas of business-to-business marketing.

"The corporate world is realizing there's a definite customer-client relationship between the marketing side of a company and operations," says Mark Cohen, vice president of Los Angeles-based Maritz Communications Co., which competes with MultiMedia. Rappaport says MultiMedia, with \$11 million in revenues, grows about 25% a year and that the entire internal advertising industry is a \$6 billion a year business. And Anthony Petrucci, vice president of Anthony M. Franco Inc., a Detroit public-relations agency, says his firm's internal communications business has grown 20% this year.

Petrucci used a medium as low-tech as a bulletin board to bolster dedication

and morale at a machine-tool company. He divided the bulletin boards in half, placing copies of ads and brochures that outlined the image the company was trying to build on one side and hanging letters from customers on the

men," says P&A communications manager Russell Murphy. He adds that the money for the newsletter, which is produced by Franco, comes from P&A's overall ad budget.

Many internal business-to-business clients are companies with decentralized networks of franchisees or sales representatives. While newsletters are still key tools, fancy video productions — internal tv ads, as it were — are getting ever more popular as video production becomes commonplace.

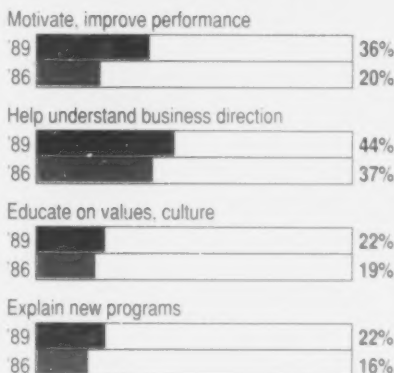
They are also, by necessity, more complex. MultiMedia's Rappaport argues, "Our job is harder than an advertiser's because the audiences, such as franchised auto dealerships, are sophisticated and critical. At our upcoming Mazda show for the dealers, for example, we will have to promote the 1990 model line as well as discuss the long-term future of the automobile market."

Taco Bell recently hired MultiMedia to produce an internal campaign to act as a kind of cheerleader for the chain's latest external marketing efforts. "We explained the rationale of the ad campaign to the kids who work in the restaurants by producing a video with a real MTV feel to it. They'll probably do their jobs better," hopes Rappaport.

In most companies, internal marketing has evolved into an activity worthy of its own budget line. A decade ago, it was almost always paid for out of the advertising and promotion budget. Also, companies now turn directly to internal marketing specialists, whereas several years ago they let their advertising agencies contract out internal marketing. "Now, we deal with the client 100% of the time," says Rappaport. "Five years ago we dealt with an advertising agency 30% of the time, and 10 years ago it was 70%." ■

THE NEED TO COMMUNICATE

The Wyatt Company, a Chicago-based consultancy, reports increased awareness of internal communication needs. Among the types of communications judged in need of improvement:



Source: 1989 Wyatt Communication Survey.
Base = 2,120 companies and organizations.

other that either praised or berated the company. A red traffic light shone over the board after a complaint and a green light flashed after a positive posting. "The campaign let the worker get closer to the environment in which the products he made were sold," says Petrucci.

But many internal campaigns have the exact same objective as consumer campaigns: to increase sales. The house organ at Parker & Amchem, a Michigan chemical company, is designed to give salespeople inspiration and new ideas. "The newsletter promotes certain promotions that one industry group is doing with the hope that another group will pick it up. It really makes for more well-rounded sales-



INTO THE WHIRLWIND

From network tv to the yellow pages, the traditional ways of doing business have been swept away by a tornado of new marketplace realities. Demanding and increasingly sophisticated buyers set the pace and manipulate their deals to meet exacting marketing needs. If that means merchandising, then so be it; if it means multi-media deals, then so be it; if that means packages, discounts, promotional tie-ins or any number of other added-value options, then the smart seller will respond accordingly.

On the one hand, this has been good for the media. They've responded well with innovative plans and opportunities, and in the process have reaffirmed the strategic value of advertising in the marketing mix. Even as the economy cools and many predict a slowdown ahead, advertising plans in some categories are being stepped up.

But such a shift in how media are bought and sold has profoundly altered their businesses. Cost pressures and rate sensitivity have escalated hand-in-hand, making the task of setting ad rates a particularly risky one. It has also made our task of projecting those increases even more difficult.

With that in mind, we polled over 100 media directors concerning their projections on costs for the year ahead. We also interviewed many one-on-one to understand the basis for their outlooks. The result is our call that the average overall cost of a media unit for 1990 will rise by 5.2%.

This compares with our panel's report of an actual 1989 increase of 5.3%, which is higher than the 4% our poll estimated last year. But that projection was right on the money when you consider that 1989's higher actual

number includes the first-time addition of cable. When cable is factored out, our respondents' insights proved out: It all adds up to a +4%.

All figures are, of course, averages based on estimates for 12 media options (see charts). The individual components in the anticipated rate hikes range from a +10.3% average for cable

previous year, while the other media fell into the +4.5%-to-6% range.

For the year ahead, advertisers show concern over softening consumer spending. But there is a hint in the air of a renewed emphasis on media advertising and its role in image/value communications. Sales promotion, which has grown over the past few years at the expense of media advertising, appears to be losing some steam.

There are many reasons for this, but one of the stronger ones is consumers' renewed love affair with established brands. Consumers seem to be craving more stability in their lives, and this is translating into purchase patterns that favor trusted, well-known brand names. This trend could, if the economy holds, mean some real growth in media advertising.

Agencies are also out to get their money's worth as the media department continues to underscore its role as a strategic player in clients' marketing plans. They face a real challenge. Mergers on both the client and agency side have exacerbated any already complex task as budgets are pooled and clients are matched to complex media and promotion plans. And the future forecast shows more of the same. Media directors are actively restructuring their departments to better analyze and, indeed, create new media opportunities.

Who will pay for the extra costs? That question weighs heavily on all parties as next year's increases are debated. But one point seems assured: Such creative media thinking is the future of more efficient and effective communications.

It may not be Oz, but it's a start. ■



to a meager +0.6% average for daytime. Elsewhere in the media mix, projections fall in the 5%-6% range.

Among the actual increases reported for 1989, cable's extraordinary jump of 18.7%, as reported by our major-agency sample, reflects the push by big-ticket advertisers into the medium's top-tier programming. While no one will deny that the medium has had a good year, the total picture is undoubtedly a bit more conservative. Daytime broadcast, meanwhile, showed rates down 8% from the pre-

MEDIA COST RISES

	1990 vs. 1989		1989 vs. 1988		1988 vs. 1987		1987 vs. 1986		1986 vs. 1985	
	Anticipated		Actual	Anticipated	Actual	Anticipated	Actual	Anticipated	Actual	Anticipated
Average increases—unit cost										
Nighttime network tv	6.0%		5.0%	3.5%	5.9%	6.0%	3.2%	4.0%	5.9%	7.0%
Daytime network tv	0.6		-8.0	-1.4	-3.4	0.5	-7.7	-3.8	3.9	6.9
Spot tv	5.1		4.6	5.0	5.9	8.4	5.6	5.5	5.8	7.7
Network radio	5.3		4.3	3.3	3.2	6.4	5.7	5.1	9.1	7.2
Spot radio	4.2		4.5	3.9	4.0	6.0	4.4	4.4	5.6	6.8
Consumer magazines*	6.3		5.7	5.0	4.7	5.6	4.3	6.7	7.0	7.7
Cable	10.3		18.7	—	—	—	—	—	—	—
Daily newspapers	5.2		6.1	6.1	6.0	6.6	6.5	7.2	7.4	7.9
Outdoor posters	4.8		6.2	5.1	4.8	5.3	4.9	5.3	5.7	7.2
Business publications	5.6		5.5	4.9	4.9	5.4	5.3	6.3	7.6	7.2
Yellow pages	5.3		5.7	5.3	5.2	—	—	—	—	—
National syndication	3.8		4.8	3.2	5.4	—	—	—	—	—

* Includes National Sunday magazines
Source: Marketing & Media Decisions

ANTICIPATED MEDIA COST MOVEMENTS 1990 vs. 1989 (Average Changes)

Medium	Unit Cost	Audience	CPM
Nighttime network tv	6.0	-2.6	8.5
Daytime network tv	0.6	-4.07	3.9
Spot tv	5.1	-0.5	5.6
Network radio	5.3	0.1	5.1
Spot radio	4.2	0.1	4.0
Consumer magazines*	6.3	1.5	5.7
Cable	10.3	5.7	7.0
Daily newspapers	5.2	-0.8	5.9
Outdoor posters	4.8	1.2	3.5
Business publications	5.6	1.2	4.8
Yellow pages	5.3	1.0	4.9
National syndication	3.8	0.2	3.5

Response Ranges

Nighttime network tv	+1/+10	-8/+5	+4/+15
Daytime network tv	-19/+10	-10/0	-10/+15
Spot tv	0/+12	-3/+2	0/+10
Network radio	0/+12	-2/+2	0/+12
Spot radio	0/+7	-1/+0.5	0/+7
Consumer magazines*	+3/+10	0/+3	+4/+8
Cable	+2/+34	0/+25	+1/+19.4
Daily newspapers	+1/+9	-2/+0.2	+2/+10
Outdoor posters	+2/+10	0/+3	+1.5/+10.2
Business publications	+4/+8	0/+5.6	+3/+8
Yellow pages	+4/+6.4	0/2	+3/+6.4
National syndication	-10/+10	-5/+5	-15/+8

* Includes National Sunday magazines
Source: Marketing & Media Decisions

ACTUAL MEDIA COST MOVEMENTS 1990 vs. 1989 (Average Changes)

Medium	Unit Cost	Audience	CPM
Nighttime network tv	5.0	-3.3	6.7
Daytime network tv	-8.0	-5.7	-6.6
Spot tv	4.6	0.9	4.3
Network radio	4.3	1.4	3.9
Spot radio	4.5	0.2	4.0
Consumer magazines*	5.7	2.5	4.8
Cable	18.7	2.8	7.2
Daily newspapers	6.1	1.0	5.9
Outdoor posters	6.2	-2.4	5.4
Business publications	5.5	3.3	4.3
Yellow pages	5.7	2.0	5.0
National syndication	4.8	2.6	3.6

Response Ranges

Nighttime network tv	-1/+12	-9/+5	+3/+13
Daytime network tv	-25/+6	-29/-0.5	-25/+10
Spot tv	-4.5/+12	-2/+6	+2/+8
Network radio	+2/+12	0/+5	-3/+12
Spot radio	+2/+8	0/+0.5	+1/+6
Consumer magazines*	+4/+8	+0.9/+4	+3/+8
Cable	+2/+25	-25/+17	+2/+18.7
Daily newspapers	+2/+10	-2/+6	+3/+9
Outdoor posters	+3/+10	+0.8/+4	+2/+8
Business publications	+3/+9	+0.4/+9	+1/+9
Yellow pages	+3/+7	+1/+4	-1/+7
National syndication	+2/+12	-5/+8	+1.7/+10

* Includes National Sunday magazines
Source: Marketing & Media Decisions

PREPARE TO LAND

Most experts predict a slower economy, but how quickly we get there is up in the air.

by Carol Hall

With what-goes-up-must-come-down logic, economists have been predicting severe dips in the economy since it began soaring six years ago. This year, things are no different: the main indicators point strongly to some kind of slowdown in the current expansion.

The year's economic catch phrase is "soft landing." Used by hopeful forecasters, it means an economy that's still growing, only more slowly, and where inflation pressures and unemployment rates don't continue to build. As one economist explains, "The trick that policy-makers are trying to do is to slow the economy down enough — but not so much that it plunges us into a recession. It's a tricky balance and very difficult to strike."

Some subscribe to the "soft landing" optimism and have unbuckled their safety belts. But others have put on their crash helmets. They point to slackening new car sales, a drop in housing construction and the instability caused by a strengthening dollar.

How will media rates be affected? Obviously, if the economy slows significantly and corporate profits decline, capital spending will be cut, as will ad budgets. The general consensus is that consumer spending is weakening, meaning a slowdown in ad budgets.

Robert Brusca

Senior vice president/chief economist
 Nikko Securities Co.

"I'm not the optimist these days," sighs Brusca. The strength of the dollar ranks high on the worry list. While a low unemployment rate is every poli-

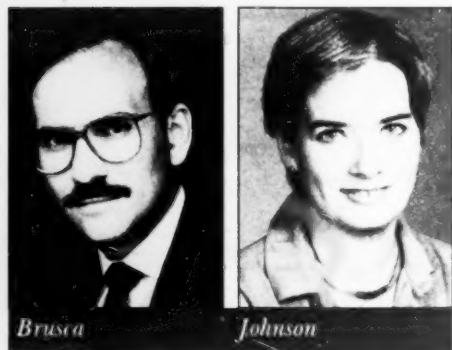
tician's dream, it gives Brusca the economic heebie-jeebies. "We're going to continue to have pressure in the labor market because of it." The low rate, he says, "will result in more wage inflation, and that'll feed into more price inflation." And that, he warns, is more

PROJECTED INCREASES AT A GLANCE

	GNP	Unemployment	CPI	Interest rates (T-bills, 3 months)
Richard D. Rippe				
Second half '89	1%-1.5%	5.5%	4.5%-5%	7.6%
First half '90	1%-1.5%	6%	4.5%	6.7%-7%
Donald Straszheim				
Second half '89	-4.5%	5.6%	5.55%	8%
First half '90	+1.75%	6.1%	5%	6.85%
Delos Smith				
Second half '89	+1.5%	5.7%	5.2%	8.25%
First half '90	-1%	6.25%	5%	8.25%
Deborah E. Johnson				
Second half '89	3%	5%	3.7%	7.75%
First half '90	3%	4.8%	3.7%	7.5%
Robert Brusca				
Second half '89	2%	5%	5.25%	8.4%
First half '90	2.75%	4.9%	6%	9.1%

Source: Marketing & Media Decisions

insidious than "a rock-'em-sock-'em declining dollar, surging oil prices" or any number of other economic events. "It's not like a tornado threatening the house; it's more like termites in the basement." In short, he declares: "This ain't a soft landing in my book."



Bruce

Johnson

Deborah E. Johnson

Senior economist and vice president, Prudential Bache Securities

"GNP's going to grow at about 3% per quarter for as far as the eye can see," says Johnson. "It's part of our 'New Wave' economics," she explains, "where you have rolling recessions within different sectors of the economy at different times." Inflation should come in at 4.5% for 1989 and 3.7% for 1990, she predicts. "We're calling what's happening now a 'hard-landing scare.'"

Slow auto sales, on everyone's minds, are affecting other industries — notably primary metals and machine tools — but not enough, according to Johnson, to cause a recession. More worrisome, she says, is lackluster consumer spending. "Our forecast is based on a conservative 'couch potato' growth rate in spending, which is 2% to 3%. That's coming off the 'yuppie pace' of 4% to 5% between 1983 and '86," she notes.

While the balance of trade has some forecasters sweating, Johnson suggests a bright future lies ahead. "You have to remember our manufacturing sector went through tremendous restructuring and is extremely productive and therefore very competitive. And looking at the numbers, a lot of what we've imported have been capital goods (i.e. machine tools), which in the long run

only increases our export potential." Capital spending for 1989 should total 8%, says Bache, and 11% in 1990.

Richard D. Rippe

Senior vice president and economist, Dean Witter Reynolds

Richard Rippe says a number of things point to an economic slowdown: weaker consumer spending, a fall in housing construction and a decline in government spending among them. "But even the strong sectors like capital spending are slowing down somewhat from exuberant 1988 growth." Why lower investment by corporations? "Profits will be sluggish, and businesses will be reacting to signs of slowness elsewhere and will be more cautious." As opposed to 1988's capital spending increase of 9%, he says, 1989's total should come in at 5% and not improve much in 1990.

The Federal Reserve's currently tight monetary policy, he says, will ease as signs of an economic slowdown become clearer. He, like others, is very worried about the rising value of the dollar overseas. "That is a major risk, because it would threaten to turn the trade gains back to neutral and eventually reverse them."

Donald Straszheim

Chief economist, Merrill Lynch Capital Markets

The Federal Reserve, says Straszheim, recently moved to bring down interest rates because "they see the economy beginning to weaken and see inflation as a problem."

"Capital spending has been on a tear for the last couple of years, after a very lean period," he says. "For the remainder of 1989 and the first part of 1990, it will be much more subdued. It's not going to collapse, but it won't give the economy the lift it did in the last two years."

He adds that "corporate profits and earnings will not rise as fast in '89 and '90 as they did in '87 and '88." Earnings for *Standard & Poor* 500 companies, per share after taxes, rose about 20% and 35% in 1987 and 1988, respectively. This year and next,

Straszheim says, growth will only be in the single digits. "That will perhaps be an important restraint on spending on marketing."

Delos Smith

Economist, The Conference Board

The Conference Board projects negative growth in the GNP for the fourth quarter of 1989 and first quarter of 1990 (-1% and -1.3%, respectively). Though every economist will tell you that two successive negative-growth quarters is the very definition of "recession," Smith says the Conference Board refuses to slap that label on the immediate future. The U.S., he says, is probably not a "closed" economy any longer, but part of a global economy. He's not convinced forecasting tools are up to speed on analyzing global influences, so these negative numbers are probably not as severe as they seem now.

Growth in the CPI should be fairly moderate (the Board projects 5.2% for all of 1990) because "the food situation is much better this year than last year" due to heavy rains this spring. But food prices are still, in some cases, feeling the effects of last year's severe drought. And wage patterns won't show much acceleration, just perhaps grow in line with inflation. "But the old price/wage inflation is simply not there."

MEDIA ANALYSTS

Dennis McAlpine

Senior vice president, media analyst at Oppenheimer & Co.

McAlpine forecasts ad expenditures rising in the 3% range next year, along with GNP. Rate hikes, though, should



Straszheim

Smith

jump 5% to 6%.

Rate increases for network tv: on the order of 8%, according to McAlpine. "It's panic on the part of the advertisers again. I honestly didn't expect them to be up — I thought they'd be down because you didn't have the two reasons that contributed to the increases last year, the people meters from two years ago and the Writers' Guild strike last year. But," he adds, "it appears that the advertisers, or at least the ad agencies, want the security blanket of a guarantee, which means you buy upfront."

But spot tv, he says, looks weak, with increases in the 3% to 4% range. "That's mainly because the advertiser is putting more money into network, barter syndication and cable. His dollar is diluted."

Magazine rates, he predicts, will be up 4% to 5% on flat circulation. Newspapers can expect lineage increases to crawl up 1% or 2% by McAlpine's reckoning. Price increases will rise about 5%. Network radio looks very strong this year, with a 10% revenue gain in total, says McAlpine. One reason: more new programing is being offered.

Drew Marcus

President, media analyst at Kidder Peabody & Co.

Rate increases for radio will be 5% both this year and in 1990. On the expenditure side, "the national advertising market is generally strong, as we're seeing in the upfront market in prime-time television."

Newspaper rate increases will be in the 5% to 6% range next year, he says, with weaker classified ads reflecting a general slowdown in the economy. For 1989, he says newspaper growth will come in at 6%, with classified growing 7%, retail up 5% and national up 2%. "Profit margins are stable-to-up because of the tremendous job of cost control most newspapers are doing."

John Tinker

Media analyst, Morgan Stanley & Co.

"Certainly if corporate profits go down, people will spend less on advertising," says Tinker. "But on the basis of a soft-landing economy, I

guess you're looking at a 7% increase in ad revenues for 1990."

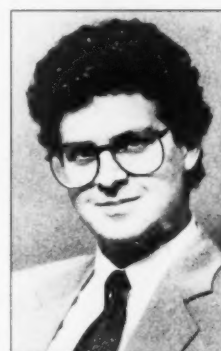
As for rate increases: "I don't think the business has been especially expanding or contracting, so maybe the unit price increase is up 6% for all media."

Cable tv's growth rate will continue to slow gradually, he says, pegging next year's growth in the range of 15% to 18%. He thinks second-half 1989 rates will be up about 6% and that 1990 rates could waver between 6% and 7%.

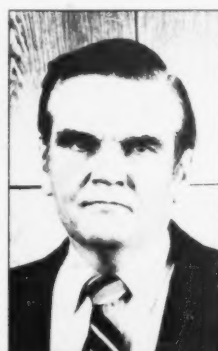
Ken Noble

Media analyst, Paine Webber

Total ad expenditures, Noble predicts, will grow about 7% in 1990. "Nothing big because we're looking at



Marcus



Noble

a slow economy," he says, adding that he expects corporate profits to decline.

National spot television rates should grow on the order of 5%, he predicts, with local's cost-to-advertisers rising 6% to 7%.

Magazines won't post big gains or rate increases in 1990, he claims. "I don't think they are as strong as the numbers so far this year indicate. The usual approach of counting pages, times rates, is somewhat irrelevant these days because of discounting." He thinks the true growth is usually about 1% less than reported. Magazine gains should start the year strongly, then slow the second half of '90 for a total of about 7%. Rates should increase on the order of 5% to 6%.

Newspapers should post a 6% rate gain next year, with revenue growth in the same neighborhood. For year-end

1989 he thinks the gain could be even higher. Though newspaper growth was up only 4.5% by mid-year 1989, that's misleading "because the numbers tend to come from big cities and the strength in advertising right now is in smaller cities on the retail side." Classified advertising, which he now estimates to account for 40% to 50% of newspaper ad revenues, should show an 8% growth rate for 1989 and flatten to 6% in 1990.

Peter Falco

First vice president, Merrill Lynch Capital Markets

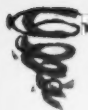
There are no dizzying price increases in Falco's forecast. For calendar year 1990, network television ads will cost 8% to 9% more. With paper costs leveling off for magazines, rates to advertisers should bump up 4.5%, while newspaper prices will rise about 6%.

Falco says newspaper ad revenues for 1989 will come in at 5% and slip to 4.1% for 1990. Magazines will grow 5% this year and back-track to 4.5% next. He's conservative in his assessment of magazines, he says, "because the industry has vastly overstated results. Time Inc., more than 20% of the industry, reported its revenues for the first

quarter were up 4%." He says the industry, on the other hand, "reported Time was up close to 10% and the industry as a whole up 10.5%." He says he puts his trust in Time's leaner figures.

His overall numbers for television show 1989's growth rate at 5.9% and 6.9% in '90. Network tv will be up 2% in 1989 and 6% in 1990; national spot should grow 4% by year's end and 5% next year; Local will post 6.5% and 7% gains in '89 and '90, respectively.

He expects syndicated television to leap forward by 25% in 1989 and 10% next year. "Syndication's jump is a function of some of the new programming product, particularly *Cosby*," he notes. Cable (network and local) will end 1989 with a 26% gain and continue healthy growth next year, with a 15% increase. ■



AS SAATCHI SEES IT

Cautious optimism is guiding the agency's projections for upcoming ad expenditures.

by Betsy Frank,
Senior vice president,
associate director,
media research,
Saatchi & Saatchi
DFS Compton

One year ago, the tone of the article we wrote for this special Media Costs issue could best be described as optimistically cautious: optimistic, because the U.S. economy appeared to be weathering the October 19, 1987 crash better than expected, and recession no longer seemed a real threat for 1988; cautious, since the problems that had contributed to the crash were still with us.

Furthermore, advertisers were continuing their love affair with promotion at the expense of advertising; efficient media alternatives were proliferating; 15-second commercial usage was skyrocketing; and, as we went to press, the "Quadrennial Theory" was proving to be somewhat of a disappointment. On top of all that, Independence Day weekend had come and gone, yet because of uncertainties associated with the Writers Guild of America strike, the network television upfront marketplace was just getting off the ground.

Now, a year later, things are quite different, and we might describe our

tone as cautiously optimistic. We're still cautious, since uncertainty over the economy is continuing to affect advertising growth. Inflation in 1988 was approximately 4%, and while it hit 5.7% in the first quarter of 1989, most analysts now expect that inflation will slow during the rest of the year and that a recession is unlikely any time in the next 12 months. But while this moderation suggests a more optimistic

scenario for the second-half of 1989 and beyond, economists now see very slow economic growth, higher unemployment and a squeeze on corporate profits. All of these factors will make 1989 a challenging year for advertising.

Yet in spite of this, we are clearly more optimistic than a year ago. More marketers now appear to be recognizing the importance of advertising rel-

EXHIBIT I
ADVERTISING REVENUE ESTIMATES (MILLIONS)

	1987	1988	% Change
Television			
* Network	\$ 8,815	\$ 9,580	+ 8.7
Fox	100	150	+ 50.0
Spot	13,681	14,570	+ 6.5
Cable	1,170	1,450	+ 23.9
Syndication	762	901	+ 18.2
Radio			
Network	371	377	+ 1.6
Spot	6,920	7,452	+ 7.7
Magazines	8,158	8,892	+ 9.0
Newspapers	29,412	31,197	+ 6.1
Outdoor	1,329	1,424	+ 7.1
Total Major Media	70,718	75,993	+ 7.5

*ABC/CBS/NBC

Sources:
Network Television: BAR
Spot Television: TVB
Cable: CAB/S&SDFSC
Syndication: ASTA/S&SDFSC

Radio: RAB
Magazines: MPA/S&SDFSC
Newspapers: NAB
Outdoor: IOA

ative to promotion in a competitive and fragmenting consumer marketplace. Perhaps the best example of this "new" mindset is the just-concluded network television upfront selling season. The record-setting \$4 billion committed in prime time alone confirms the fact that while cable and syndication have their value, no medium or promotional opportunity is able to deliver the mass numbers that network television, in spite of audience erosion, still can.

Continuing the argument we presented last year that media inflation is driven above all by media demand, we once again begin our analysis with advertising revenue: what kind of year was 1988?

1988 ADVERTISING REVENUE

Network television (ABC/CBS/NBC) spending totaled \$9.6 billion, up almost 9% from 1987. This may sound like a healthy increase, but remember that in 1984, the previous Olympics/election year, spending on the networks rose by over 20% from 1983. Still, because of the Olympics, ABC and NBC increased their 1988 advertising revenue 13% and 15%, respectively, while CBS actually declined

3%. ABC's share of the three-network revenue pie rose from 30% to 32%, CBS dropped from 32% to 29% and NBC grew from 38% to 39%. During 1988, it is estimated that ad revenue from the fledgling **Fox** network was about \$150 million, less than 2% of the four-network total.

Spot television was up 6.5% to \$14.6 billion, with local growth continuing to outpace national. In fact, 1988 marked the first year that local exceeded national spot. Much of this growth was a result of political advertising — political advertising set a record in 1988, with 83% of the total going to local. Without political advertising, spot spending may well have been flat.

Cable penetration has now reached 55%. During 1988 cable spending approached \$1.5 billion, up almost 25% from 1987 and roughly in line with increased viewing. **Syndication** also enjoyed significant growth in 1988. From virtually nothing in 1980, the market grew to \$900 million last year.

Network radio grew only 1.6% in 1988, almost all of the growth attributable to network radio's biggest advertiser, Sears Roebuck. Spending by Sears was up 28% from 1987, and the

company's 1988 network radio dollars were more than runners-up General Motors and Procter & Gamble combined.

Magazines set a record in 1988, with ad revenues up a strong 9% to \$8.9 billion. **Newspaper** revenues were up 6%.

While hard liquor continued to cut back **outdoor** spending, wine and beer, as well as foods and packaged goods, made up for the loss. In total, outdoor reached \$1.4 billion, up 7%.

ADVERTISING REVENUE 1989-1991

This year's record-setting network television upfront marketplace was significant in a number of ways, but above all because it provided a vote of confidence in the medium:

- After two years of disrupted marketplaces (1987, people meters; 1988, the writers' strike), this year's upfront took place early and quickly.

- While it is generally agreed that prime time was "driven" by the automobile companies, other categories, such as fast-foods and retailers, and other dayparts, including news and late night, also showed strength.

- Fox was a major player in the upfront, writing deals totaling \$300 million. This was especially meaningful given the program-content issue; though a number of "hit list" programs air on Fox, little was heard regarding "boycotts." FBC's strategy of doing business early proved to be a brilliant tactic, locking up dollars for the seller and providing negotiating leverage for the buyer. One can only imagine the impact on pricing this year were Fox not part of the marketplace and that \$300 million had to be spent on ABC, CBS and NBC.

It is clear, then, that upfront advertisers rallied behind the four networks, to the tune of \$4 billion in prime time alone. The question that remains, however, is how much of that money represents scatter dollars being spent upfront because of this year's costly scatter marketplace, and how much is "new money." Since the answer will not begin to surface for almost six months, we have taken a somewhat conservative position, projecting a 3%

EXHIBIT II ADVERTISING REVENUE ESTIMATES (MILLIONS)

	1989	% Change	1990	% Change	1991	% Change
Television						
* Network	\$ 9,867	+ 3.0	\$ 10,262	+ 4.0	\$ 10,672	+ 4.0
Fox	250	+66.7	500	+100.0	900	+80.0
Spot	15,227	+ 4.5	15,914	+ 4.5	16,550	+ 4.0
Cable	1,740	+20.0	2,053	+18.0	2,402	+17.0
Syndication	1,045	+16.0	1,202	+15.0	1,394	+16.0
Radio						
Network	396	+ 5.0	420	+ 6.0	445	+ 6.0
Spot	7,974	+ 7.0	8,532	+ 7.0	9,129	+ 7.0
Magazines	9,470	+ 6.5	10,133	+ 7.0	10,842	+ 7.0
Newspapers	33,224	+ 6.5	33,384	+ 6.5	37,861	+ 7.0
Outdoor	1,538	+ 8.0	1,669	+ 8.5	1,819	+ 9.0
Total Major Media	80,731	+ 6.2	86,069	+ 6.6	92,014	+ 6.9

*ABC CBS NBC

Source: Saatchi & Saatchi DFS Compton

increase for the **networks** in 1989 and 4% in 1990. **Fox**, however, starting from a low base, benefitting from growth among demographically compatible categories and rolling out new nights of programing, could see its revenue double next year.

The 1989 **spot television** picture is also somewhat brighter than originally anticipated, primarily due, as with the networks, to automotive and fast-food advertisers. Also showing growth are motion-picture companies. We are projecting increases of 4.5% for 1989 and 1990, with a higher annual rate for local than national.

The **cable** upfront has yet to begin in earnest, but with more viable networks, more original programing and more viewing, we are optimistic about cable's prospects. We are projecting revenue increases in the range of 17%-20%, with local cable growing faster than national.

This year's syndication upfront saw high levels of sell-out for network-quality prime-time and prime-access series, like *Star Trek — The Next Generation*. Clearly, syndication continues to offer advertisers leverage against the networks by providing attractive alternative programing at a lower-than-network CPM. While potential changes in

network compensation could result in more stations pre-empting the networks for syndicated shows, the re-imposition of syndicated exclusivity could have a negative impact on the value of syndication. We see syndication growing at 15%-16% per year over the next three years.

We are forecasting modest growth for **radio**, with spot growing faster than network. Since the medium is so dependent on the local sector, this forecast assumes local retailers and car dealers will maintain their current levels in the year ahead.

The first quarter of 1989 provided a boost in **magazine** spending. Increases were posted for all of the top categories. Magazine spending is forecast to grow by 6.5%-to-7% annually over the next three years, although much depends on proposed changes in the regulations governing tobacco and alcohol advertising.

Newspapers remain the largest single segment of U.S. ad revenue. With more local competition and the continuing softness in financial advertising, and with classified and real-estate listings so sensitive to economic variables, we are projecting 6%-7% growth over the forecast period.

Finally, based on increases noted for

this year among food and packaged goods advertisers, we see **outdoor** increasing 8%-9% a year over the next three years. In total, then, we see major media increasing by 6.2% in 1989, 6.6% in 1990 and 6.9% in 1991.

CPM INCREASES

As media alternatives become more viable and competitive, we expect CPM increases for most media to be more in line with inflation; this is unlike the early 1980s, when media inflation might be double or even triple the CPI.

Network will represent both the high and low ends of the spectrum. Prime network will command the highest increases and day network the lowest.

SUMMARY

From optimistically cautious to cautiously optimistic in one year is certainly encouraging, although it's too early to break out the champagne. Marketers have not abandoned promotion for advertising; instead, as with advertising, they are learning to use it in a more targeted, less wasteful way. However, there is no denying the generally healthier economic climate and the positive revenue trends of early 1989. It should be an interesting and challenging year. ■

EXHIBIT III
YEARLY PERCENT INCREASES IN CPM

	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991
Broadcast										
Prime Network (HH)	18%	2%	20%	5%	4%	11%	3%	8%	9%	7%
Day Network (HH)	10	7	18	12	6	1	12	3	3	3
Spot TV (HH)	9	8	9	9	6	6	8	5	5	5
Network Radio (A18+)	8	14	9	8	9	6	4	6	6	6
Spot Radio (A18+)	6	8	7	8	6	6	6	6	6	6
Print										
Magazines (Circ)	12	6	7	8	6	6	6	6	7	7
Newspapers (Circ)	16	14	13	10	7	7	6	6	7	7
Outdoor (A18+)	11	8	9	8	6	5	5	5	5	5
CPI	5.1	3.2	4.3	3.5	1.9	3.7	4.1	4.8		

Sources: 1981-1988
Network Television: Nielsen CPM Reports
All other media: S&SDFSC

1989-1991
All media: S&SDFSC

CPI
1981-1988: Bureau of Labor Statistics
1989: S&SDFSC



DRIVE, THEY SAID

Autos are the engine in national broadcast's strength, but other categories are along for the ride.

by Joe Mandese

Finally, a tv season that promises to be a return to "business as usual." The problem is, after several years of major marketplace glitches — ranging from people meters to the Olympics, elections and last year's tv writers' strike — nobody is exactly sure of what "usual" is anymore. "We don't see anything like a writers' strike that could send the market topsy-turvy again," observes Robert Ward, Miller Brewing's director of advertising services. As he handicaps it, "It looks like it is going to be a fairly normal year, if there is such a thing as normal."

If the recent upfront marketplace is any indication, then "normal" means extremely strong demand for network tv time. "It certainly is a return to a typical upfront," notes AT&T corporate broadcast manager Doug Ritter. "There aren't any big events like we've had the past few years. It is simply the law of supply and demand, and demand seems to be very strong."

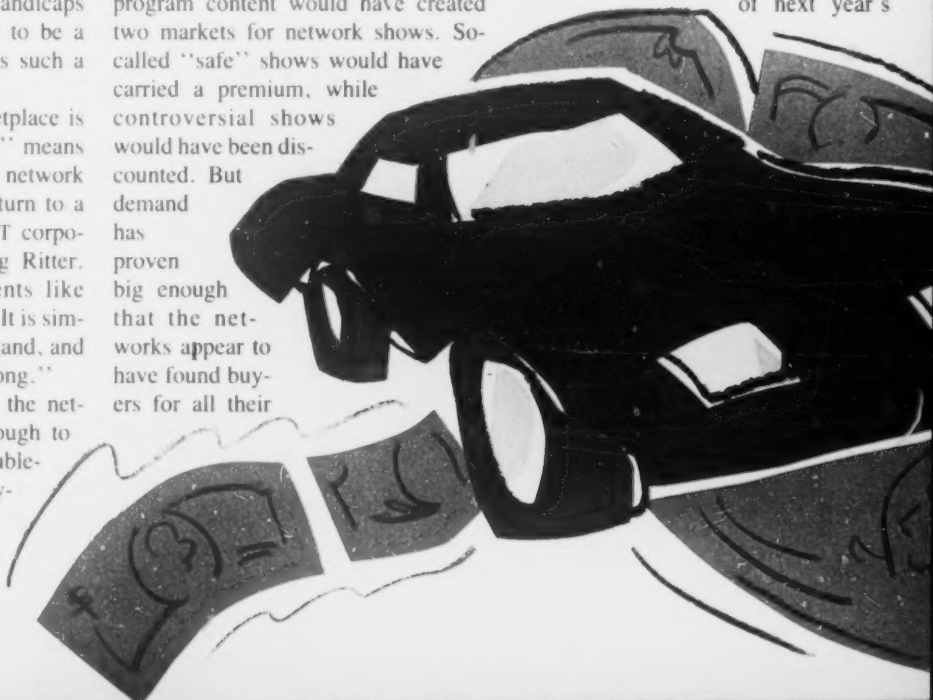
Indeed, buying interest in the network upfront was strong enough to send rate increases into the double-digits for most network dayparts, despite an average audience erosion rate of about 8% coming into this year's season. Prime time, news

and sports have been particularly strong and even network daytime posted modest gains. Moreover, demand was strong enough to nullify the impact of the only potential wildcard in this year's buying season: program content. Although content had been bantered as the "issue of the year," the presence of so much demand has made its impact negligible, according to Ogilvy & Mather's senior vice president and director of national television and programing, Alice Greenberg.

Theoretically, she says concern over program content would have created two markets for network shows. So-called "safe" shows would have carried a premium, while controversial shows would have been discounted. But demand has proven big enough that the networks appear to have found buyers for all their

prime-time fare.

Several factors appear to be contributing to marketers' increased appetite for network time. Jake Keever, ABC's executive vice president of sales, points to the strength of the quarterly scatter markets leading into this year's upfront. According to Keever, scatter prices for daytime averaged 25% over upfront costs, and prime-time scatter buys were "30%-35%" over upfront. As a result, he says, buyers have jumped into this year's upfront to protect themselves from the uncertainties of next year's



scatter pricing.

But NBC's executive vice president of sales and marketing, Bob Blackmore, insists the network boom represents a more fundamental shift. "It's saying something about the economy," he explains, noting that marketers are beginning to release ad budgets following several years of mergers and acquisitions. "People have been buying brands, and those brands have been under-advertised," he says.

"It signals a strong economy," agrees AT&T's Ritter. "If businesses didn't have money, they wouldn't be out there spending it."

Blackmore claims the networks are the first medium to experience this upturn, because of their ability to reach mass audiences. While the networks have had significant audience erosion in recent years, he argues that it is still the best place to build reach. "Everyone else talks in terms of cost per thousands. We are dealing in tens of millions," he notes.

Others agree that network tv is a "safe haven" in uncertain media buying times. "If you look at it from an audience - delivery perspective, there still is nothing for building a national brand like network

television. It's not just a safe haven, it's a smarter haven," says McCann-Erickson national media director Ira Carlin. He adds that myths still cloud the perception of network tv's true value. "I read once again in a newspaper that the networks reach only 65% of American households. That's not true — they have a 65% share. But when push comes to shove, marketers understand that the only way they still have an opportunity to reach 95% of the homes in a given week is with traditional network tv." As O&M's Greenberg puts it, "No matter where you look, it's still pretty hard to get a 12-, 13-, or 14-rating anywhere else."

Regardless of whether there is a fundamental shift in ad spending occurring, there is certainly enough impetus from several key categories, particularly automobiles, to contribute to a banner year for the national tv marketplace. "The single most important

factor to consider in terms of the 1989-90 marketplace is what is likely to happen with the largest ad category — cars — which has been incredibly strong for the last few years," reasons Alan Gottesman, a PaineWebber analyst. "We think that strength will persist," he adds, citing the introduction of several new automotive brands, including Toyota's Lexus, Nissan's Infiniti and General Motors' Saturn. "There are no such things as small car accounts," he notes.

"When you're asking people to



spend \$35,000 on a car like a Nexus or Infiniti, they're not going to pay that just because it goes forward, backward and keeps them out the rain," he says. "It's because the car says a whole lot about the person who drives it. And right now, Lexus and Infiniti don't say anything. They are absolute zeroes, and they convey absolutely no meaning to anybody. That meaning has to be created with a lot of media."

But even if automotive sales begin to wane, as many predict, Gottesman believes it will not have a negative impact on ad spending, because an "expansion of inventory relative to sales" will require auto marketers to maintain ad levels to "sell those damn things."

According to estimates from Chiat/Day/Mojo, automotive spending represents about 25% of this year's upfront. Other estimates say the automotive category now represents at least 15% of all national dollars. To put that figure in perspective, consider this: that number is bigger than the food category spent at its height. Indeed, General Motors reportedly spent nearly half a billion dollars in the upfront.

Coupled with strength from several other key categories, including movies and fast-foods, less dominant upfront players say they are feeling the cost pressure. "Unfortunately for the rest of us, the automotive people, with all their big bucks in the marketplace, have put the squeeze on us," says the media executive for a major national retailer.

While rates are increasing significantly for most dayparts, buyers say they are not uniformly sky-rocketing. "There are some people who are paying 15% and then there are others who are paying 4%," says Chiat/Day/Mojo corporate media director Stacey Lippman. "The market will probably average about 7%-8% increases."

Although the networks are boasting a record \$4 billion upfront, Lippman estimates it will be closer to a "\$3.7 billion to \$3.8 billion" range, "about where it was last year." The Fox network, however, expects to nearly double its upfront sales from the \$100 million it wrote last year to about \$300 million this year. That is partly due to Fox's improved demographic and rat-

ings strength, as well as the fact that it will expand its prime-time inventory nearly 50% with the addition of a Monday night schedule.

Jon Nesvig, Fox senior vice president of sales, says that added prime-time inventory won't necessarily curtail demand for network tv time, because Fox also is increasing network viewing share. "At this point we are bringing rating points back into the network marketplace," he says.

SYNDICATION

Meanwhile, the bullish network marketplace has had some beneficial rub-off on alternative national tv media, including syndication, unwired networks and cable (see cable story). "People peg us to a certain percentage of the networks, so if the networks go up, then we automatically go up on their coat-tails," observes Marc Hirsch, executive vice president of In-

cators have begun using their strong shows to move the weaker ones. "The good syndicators are trying to package the less desirable programing with the more desirable shows."

Mike Weiden, president of TV Horizons, the barter sales arm of LBS, insists there is nothing unorthodox about that practice. "It's funny. Some clients are fine about packaging shows in syndication and others don't want to. Yet they package network buys, so we wonder what the problem is."

Weiden concurs that there is a wide range of pricing among the syndicated fare, but estimates that the average range of price increases is "5%-8%."

SPOT

While the network marketplace is experiencing go-go growth, the national spot marketplace has been relatively flat. The only real activity has come in a few scattered markets, mostly on the

TOP 10 NETWORK TELEVISION ADVERTISERS—1988

FIRST QUARTER 1989

Advertiser	1988 (000)	Jan/Mar 1988 (000)	Jan/Mar 1989 (000)	% Change
General Motors Corp.	\$443,402.3	\$81,452.5	\$110,007.6	35.1
Philip Morris Companies, Inc.	388,601.8	87,177.4	81,018.9	-7.1
Procter & Gamble Co.	370,174.7	93,161.7	96,864.7	4.0
Kellogg Co.	297,739.8	60,986.0	70,342.7	15.3
McDonalds Corp.	245,388.5	45,161.3	60,157.3	33.2
Anheuser-Busch Cos. Inc.	207,277.9	57,751.4	44,289.2	-23.3
Unilever N.V.	189,651.5	56,869.9	50,115.4	-11.9
Ford Motor Co.	175,687.8	44,622.6	50,925.4	14.1
RJR Nabisco Inc.	174,002.4	50,415.9	36,062.8	-28.5
AT&T	173,912.3	47,789.4	34,878.8	-27.0

Source: Arbitron's Broadcast Advertisers Report

ternational Advertising Sales.

While syndication has begun to soften in the eyes of some advertisers, Hirsch notes that new players are coming into the syndication marketplace, particularly domestic and imported cars. Coca-Cola national media director John Drollinger notes, however, that there is a wide range of syndicated product commanding a similar range of demand. As a result, he says syndi-

East and West Coasts.

"I don't see any direct correlation between the network and spot marketplaces," says AT&T's Ritter, noting that spot rate increases should remain moderate. He adds that if any spillover in spending from national categories occurs, it won't happen until later in the year. "People don't buy spot this far in advance, so there's no buying frenzy out there like network."

Far from a frenzy, buyers say stations were so concerned about advertising demand in the 1989-90 marketplace that they committed much of their inventory to unwired network buys. In general, stations have been concentrating their efforts on local sales development.

"National business is not healthy, so

if you're not a station that has a good local market you're going to be in more trouble than ever before," notes Peggy Green, executive vice president and director of broadcasting of Saatchi & Saatchi DFS Compton.

Green points out, however, that as a result of these commitments, many stations may have to reduce their avail-

able inventory to the point that if national demand should pick up, rates will escalate significantly.

Moreover, D'Arcy Masius Benton & Bowles senior vice president, director of regional spot broadcasting, Sharon Lalik predicts there could be an upturn in spot demand later in the year as the automotive category turns its attention to local dealer support and incentive advertising programs.

"We see automotive coming back next year, and we think movies and restaurants will be strong," she says. "Spot probably won't get to where it used to be in 1977 or 1978, when it got double-digit rates, but there may be an improvement in demand."

McCann-Erickson senior vice president, director of local broadcasting, Laura Silton says it is unlikely that automotive demand could increase much more than it already has, however. "Stations have more automotive business than they know what to do with," she explains. "We're seeing two cars per break in late news, so you know there's still a lot of automotive money out there. But thank God. Otherwise, where would the stations be?" ■

TOP 10 SPOT TELEVISION ADVERTISERS—1988

FIRST QUARTER 1989

Advertiser	1988 (000)	Jan-Mar 1988 (000)	Jan-Mar 1989 (000)	% Change
PepsiCo Inc.	\$431,248.8	\$ 57,093.9	\$ 51,764.8	- 9.3
Procter & Gamble Co.	813,014.2	63,677.6	55,812.2	-12.4
General Motors Corp. Dealers Assn.	220,596.1	41,365.9	66,792.9	61.5
Philip Morris Cos. Inc.	1,091,799.8	33,510.5	38,983.2	16.3
General Mills Inc.	358,846.1	34,926.3	32,018.4	- 8.3
McDonalds Corp.	401,003.0	28,013.1	28,790.1	2.8
General Motors Corp.	905,061.2	36,206.8	21,968.0	-39.3
Chrysler Corp. Dealers Assn.	113,647.9	11,465.7	12,328.8	7.5
Ford Auto Dealers Assn.	140,115.6	23,597.3	25,725.9	9.0
Pillsbury Co.	229,637.2	262.8	865.0	229.1

Source: Arbitron's Broadcast Advertisers Report

A CONVERSATION WITH ROBERT WARD

Robert Ward is director of advertising services at the Miller Brewing Co. In June, he oversaw a meeting in Chicago between advertisers and network and independent tv station executives to discuss the changing roles between advertisers and broadcasters, dubbed, "The Meeting of the Minds."

On the purpose of the meeting: "The first topic was improving the communications environment, including clutter and program content. The second topic was a better understanding of value-added advertising. What is it and how can advertisers participate in it and how can stations execute it. The third topic was marketing tv beyond the numbers and CPMs. The fourth topic was building relationships for the 1990s."

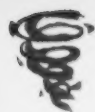


On value-added marketing: "The problem with the current CARS — that is Client to Agency to Rep to Station — structure is that it is not really set up to accommodate value-

added marketing, because the buyer's reward system is set up on delivery of GRPs. So if we are going to continue to have agencies involved, then the buyer's reward has to be more than just how many GRPs they can buy."

On the value-added impact on tv costs: "Most advertisers said they were willing to pay some kind of premium, as long as it wasn't exorbitant. Now, that's an awfully gray area."

On the outcome of the meeting: "I don't suspect that anything is going to happen overnight, but as a first step, we identified that there is an opportunity for change developing in the early 1990s that the current CARS structure really isn't set up to accommodate."



FLEXED FOR SUCCESS

The one thing buyers and sellers agree on is cable is strong and getting stronger.

by Frank DiGiacomo

Cassandra Reese is having herself a good laugh. "You've been listening to those cable network guys," says the Chicago-based manager of consolidated brand purchasing for Kraft Foods. "There's not going to be an upfront, anymore than there's been one before." Agrees Bart McHugh, senior vice president and director of national radio and tv programing at DDB Needham: "What is the point of this upfront shtick? To my knowledge, it's not happening and I don't think it's going to."

That's news to John Silvestri, a senior vice president of advertising sales for USA Network. According to his reckoning, by late last June, he had "10-to-12 major 52-week pieces of business" in the works. Last year, he remembers, the market didn't start moving until after the fourth of July.

Silvestri is not the only one claiming upfront business. Both Dick Hammer, managing director of advertising sales for The Family Channel, and Larry Divney, vice president of advertising sales for Arts & Entertainment Network, confirm that there are a lot of long-term ad plans clicking at around the same time.

In the cable sales community, the brouhaha over the emergence of a true

upfront market threatens to reach the intensity of, say, the debate over Elvis' continued existence on this planet. Madison Avenue buyers say cable's upfront consists of calendar-year buys, not August-through-September purchases.

Declares Silvestri, "They can call it whatever they want,

and we can call it whatever we want. The fact is, the cable market is moving much sooner than it has in past years. And there seems to be more money out there at an earlier stage."

A lot of money. Some \$400 million, according to the Cabletelevision Advertising Bureau's estimate — which makes it about a 100% increase over last year's non-scatter buys. A good portion of those dollars are coming from free-spending automotive companies that, at press time, had



dumped \$600 million into the upfront market for network broadcast prime.

Upfront or no, advertisers are spending on cable. To entice advertisers, the industry has worked hard to increase penetration, program quality and the number of original productions. "Cable is more of a mainstream buy," says Bob Igiel, senior vice president and director of programming for N W Ayer. "Cable numbers have increased and so

then price-driven. Advertisers know the inventory is going to be there. They may get locked out of certain programs, but they're not going to get locked out of cable."

Cable's ability to jack up CPMs and have a truly panic-filled upfront is also limited by its reach, says Jon Mandel, vice president and director of national broadcast for Grey Advertising. "While the ratings and demos are good

20% for its programming on an average CPM of \$6 (that's factoring in all of ESPN's programming). Its NFL games and NFL support programming were almost sold out, as were its PAC 10, Big East and Big 10 college football contests and its Big East basketball tournament. Bonanni says advertising by auto manufacturers was up 25%.

The Family Channel's Hammer predicts a modest 5%-8% rise in CPMs because of the large amount of inventory available. He adds, however, that "in all of the upfront deals we're negotiating, I'm excluding our originally produced programming and selling it à la carte. We have to sell that at premium prices."

As an example, Hammer says that, earlier in the year, he got a \$4.40 household CPM for *Mother's Day*, a Family Channel world-premiere movie that ran on, you guessed it, *Mother's Day*. "Our prime time regularly goes for a \$2.75-3.75 non-exclusive, household," he explains. "That's a 35% premium."

Interestingly, Hammer explains that premium CPMs won't extend to Family Channel's new Funday weekday block of kids' programming. "Kids is entirely different. Our participation has got to be marketplace driven. We're getting lower CPMs than what we thought we'd get, but TBS, USA and Nickelodeon establish the marketplace."

USA Network is "pretty tight," according to Silvestri. "We're sold out in several quarters." He sees an 8%-10% overall increase in CPMs, but adds that "I've sold our world-premiere movies in third-quarter scatter at a 25% premium." Unlike Family Channel, USA is including its world-premiere films in upfront packages. "We're getting 20%-25% premiums, but the movies are doing big numbers: a 4.6 season to date [household rating], compared to our usual prime-time average of 2.2."

The two-tiered effect can even be found at the more narrowly targeted A&E. At press time, Divney said he had already made some automotive deals and fielded several inquiries from other additional automotive advertisers, credit-card and travel concerns.

TOP 10 CABLE ADVERTISERS— 1988

FIRST QUARTER 1989

Advertiser	1988 (000)	Jan/Mar 1988 (000)	Jan/Mar 1989 (000)	% Change
Procter & Gamble Co.	\$30,201.5	\$6,765.9	\$8,073.3	19.3
Philip Morris Cos. Inc.	23,075.1	5,216.4	5,204.8	- 0.2
Anheuser-Busch Cos. Inc.	21,396.7	3,992.3	4,901.8	22.8
Time Inc.	21,150.8	5,848.1	8,293.7	41.8
General Mills Inc.	20,010.6	4,688.5	5,088.0	8.5
RJR Nabisco Inc.	1,425.9	3,308.5	5,006.9	51.3
Eastman Kodak Co.	11,386.5	2,991.6	2,592.8	-13.3
Clorox Co.	10,125.6	1,714.3	2,006.0	17.0
Mars Inc.	9,994.7	2,792.7	4,554.3	63.1
Chrysler Corp.	9,699.9	2,762.4	2,719.3	-1.6

Source: Arbitron's Broadcasts Reports

have our cable buys for clients."

CPMs are up, but double-digit increases will be limited to a select group of programs. "I don't think CPMs, overall, will go into the double digits," says Silvestri. "There's just too many players out there in cable land. If there were only three guys we'd be able to control the market. But when you've got 15 services selling cable, there's a ton of inventory."

Hammer opines that the abundance of cable ad time is also a reason for the industry's inability to have a true upfront selling season à la the Big Three. "In the last year we've seen CNBC enter the scene, TNT and the announcement of two comedy channels," he lists. "As long as the inventory base continues to grow, it will be hard to get advertisers and agencies scared."

As a result, adds A&E's Divney, cable's upfront season "is more product-

on given programs, cable is still not a big reach vehicle. It's still not needed; it's nice to have."

An informal survey of clients, agencies and cable networks reveals a two-tiered, programming-driven advertising marketplace. The second tier, which contains the lion's share of cable programming, will see CPM increases of 5%-8%.

A much smaller first tier, which contains such unique, in-demand programming as ESPN's NFL football games, CNN News, Turner's *National Geographic* series and prime-time first-run movies on USA, Turner's services and Family Channel, will command much loftier increases, ranging from 10% to as much as 35%. These are the shows that will sell out.

At press time, ESPN's Bonanni reported that the sports channel was getting CPM increases between 8% and

This early interest, plus a limited amount of arts and entertainment fare on the networks, has driven healthy CPM increases at A&E, especially for the channel's documentaries, performing arts and comedy fare.

Naturally, Madison Avenue takes a far more jaundiced view of such cable claims. Even if advertisers and agencies do agree that a two-tier CPM structure exists, they peg the spread at much smaller numbers.

"For now, the cable networks believe the PR they've been setting down," says Kraft's Reese. "But the real world will set in and the value of cable will be the same as it has been. They will not get the double-digit increases they've been forecasting."

While Reese first forecasts 3%-4% increases, she too will admit, "I have a dream world also. [Increases] will probably settle somewhere in the mid-to-high-level single digits."

Like Reese, DDB Needham's McHugh says he won't buy cable nets at a 12% increase. "Every time something becomes more expensive, we go look for something else to replace it with," he says. "Because cable has so many entities, we find them."

McHugh declines to give a CPM

range, but Steve Sacchet, a DDB Needham network program supervisor who handles the Universal Studios and Michelin accounts, places increases at 6%-10%, with certain first-tier products such as ESPN's NFL and prime-time college football going at premiums of 15%-20%.

Grey's Mandel is one who's a bit skeptical about the two-tier pricing. "If you look at it that way, you're dealing with it too rationally," says the executive. "I don't think the cable nets have figured out their worth."

He recalls the example of two of his clients who, in separate deals with a certain network, attempted to make virtually identical buys. "For one advertiser, the service was asking a 50% CPM increase. For the other, the CPMs were flat — for the same programming. Where's the logic in that?"

Although he declined to estimate CPM increases this year, Mandel did say that cable nets "perception and reality are a little out of kilter" when it comes to CPM pricing. "They'll tell you their ratings are up 33%, and therefore, they want a similar CPM increase," he says. "Well, going from a 0.3 to a 0.4 rating is about a 33% increase, but it's still only a 0.4."

If cable continues to seek "exorbitant" CPM increases, Mandel says, "they're liable to kill the golden goose before it lays any eggs."

One agency that had completed its cable buying even before the networks had priced their upfront inventory was Chiat/Day/Mojo, which represents Nissan. "We felt the timing was right," says Stacey Lippman, senior vice president and corporate media director.

He claims Chiat/Day/Mojo was able to keep CPM increases down to 2%-3%, "4%-5% if programs were cherry-picked," in part because the agency's supervisors do the buying instead of the junior buyers. "We may beat up on the cable guys a little more than most," he says, "but it's also an indication of how seriously we take the medium."

Indeed, although cable continues to be, in the words of Lippman, a "buyer's delight," if projections on the industry's growth come true, the buying of cable time may become more of a horse race. By 1995, J. Walter Thompson predicts that cable penetration will top 65%. Combined cable viewing rose three share points in 1988 to an 18, and the agency predicts it will gain five more share points in the next six years.

A CONVERSATION WITH BART MCHUGH

Bart McHugh is a senior vice president and director of national radio and tv programming, DDB Needham, New York.

On cable upfront: "We've been buying cable tv on a calendar basis — January through December. That's as much of an upfront as September through August. Why all of a sudden does it have to be September through August for cable? How do we do five or six dayparts in broadcast network, radio and cable network at the same time? Nobody can do it."

On value-added promotions: "Buyers have to remember to ask, 'What are you going to do for me?' The broadcast networks have been



putting aside between one-half and one percent of the gross of a package for merchandising and promotion since the beginning of the history of network tv. In less than 10% of the

deals they made did people ask for something extra."

On media mix formulas: "Everybody's got formulas. I'm going to regret saying this, but not that many people pay attention to those formulas. For the most part, cable budgets are established by people saying, 'That's a nice number.'"

On cable's reach: "Cable is never going to be as big as broadcast. The industry as a whole may be, but when we go out and make a cable buy, we're not buying the industry, we're buying *x* programs on *x* networks. Never will cable equal the reach of broadcasting. Then again, I could be wrong."

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McHugh adds, "A couple of years ago, it was just the business/financial shows that advertisers were lining up for. Now it's the business shows, colorized movies, NFL on ESPN and series on A&E and The Discovery Channel. Every year there's something that people are discovering, and it makes cable tighter, more valuable and expensive."

Determining how much of a budget to allocate to cable spending is a more nebulous issue than determining what shows to buy. It's also an issue that buyers are very good at sidestepping. Lippman, for example, says that Nissan placed more money in cable this year over last year, but won't say by how much.

According to Reese, each one of Kraft's brands is put through a volumetrics evaluation to determine the need for cable advertising. DDB Needham has a program called SmartMix that says, "Unlike what everyone thought, you can spend up to 35% of your budget in cable and still get the best reach and frequency possible," reports McHugh. "Does that mean everybody we have as a client in New York and Chicago is going to put 30%-35% of their budget in cable? No way, Charlie Brown."

If there was a unique selling point of cable that distinguished it from other forms of national advertising, it was the basic services' willingness to participate in value-added promotions. Cable executives are beginning to find that the industry's reputation in this area is a bit of a double-edged sword, however. With so many calls for value-added deals, cable is finding the cost of doing business spiraling. As Hammer describes it, when the Family Channel agrees to wrap a vignette around an advertiser's message, for example, "the out-of-pocket cost is nominal. However, the absorption of another 30-second position on our traffic board to accommodate the vignette is substantial." (Company guidelines prevent Hammer from taking the 30-seconds out of the promotion time.) "The advertiser receives value that's virtually double the cost of what he's paying," says Hammer.

To offset that cost, Hammer tries to run the vignettes in dayparts in which there is an abundance of inventory, but he maintains, "Ultimately, we've got to find a way to pay for value-added services, possibly through direct pricing agreements with advertisers. We'll guarantee the audience for that value-added portion if they buy, but we'll bill them for those services."

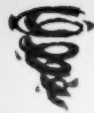
Naturally, McHugh doesn't cotton to that proposal. "No way — value-added will not get added to cost. That's what makes it value-added."

Adds Reese, "Once you give it to me, taking it away is even worse. If you've always done vignettes for me and now you want to get a 2%-3% CPM increase and you don't want to give me a vignette, you are taking something away from me."

If any marketplace factors other than savvy buyers and an abundance of inventory are holding cable CPMs to modest increases, there are cable operators who are balking at basic networks' attempts to raise per-sub fees. (Just such an increase was behind Jones Intercable's decision to throw USA Network off its systems earlier this year.) Although none of the cable ad execs admitted that they set CPMs with operators in mind, Family Channel's Hammer recounts how he was told by management to temper his enthusiasm over revenue growth when he talked to the trade press lest the operators "resist increases in the sub fee area."

Generally, the cable programming industry is making a major effort to appear cooperative with everyone. Cable wants to please operators, advertisers and viewers because, right now, it's the underdog, and the underdog has to try harder. "You can talk to cable networks anytime about doing [long-term] business," says Kraft's Reese.

That's one of the reasons why Reese scoffs at the idea of a cable upfront. "I don't think there's that sense of emergency yet," says Reese. "That's the only thing that will put them in the position to say, 'The market is moving. If you don't jump in right now, you won't get anything.' Until that happens," she says, "I'll continue to ask, 'What upfront?'" ■



MINI-BOOM FOR THE BOX

Sellers are whistling a happy tune, and the strong broadcast market should keep them on key.

by Emily DeNitto
and Joe Mandese

Following a few soft years of flattened growth, demand for radio ad time appears to be gliding toward the upper end of the dial. Coming off modest 1988 gains, national radio ad expenditures have been posting double-digit increases and are expected to maintain those levels into 1990. The reasons for this turnabout are many and include radio's relative value over other media and the tightness of the network tv marketplace.

Moreover, stability in radio listening levels, improvements in programing and a relatively less cluttered advertising environment than television have many referring to "the New Golden Age of Radio." "Our medium has already gone through its mid-life crisis," says Bob McCurdy, vice president and general sales manager of Katz Radio. "We've been competing tooth and nail for years, but now tv and others may be going through their mid-life crises."

Be that as it may, radio certainly appears to have caught a second wind. After closing out 1988 with gains of only 3%, to \$388 million, network radio sales were up about 12% through May 1989. That's a considerable jump over the 4.5% increase the Radio Ad-



vertising Bureau (RAB) had originally projected for network radio last December.

National spot sales, which rose 6.6% to \$1.4 billion in 1988, meanwhile, are posting 1989 gains of 14.2%.

Only local radio sales, which rose 9% to \$6.1 billion in 1988, have failed to keep pace with last year. Through April 1989, however, local sales still

were showing a respectable 7.1% gain. Moreover, local is expected to strengthen later in the year, according to RAB senior vice president of research Bob Galen. "I expect local to pick up," he says. "We have a good chance of hitting double-digit increases overall for the year."

He notes that local expenditures may have been affected by consolidation within several key local ad categories. "Local seems to be soft, but that's probably due to the mergers that have happened," Galen explains. "Every

time you merge two banks, you have one less bank to advertise."

While local sales are expected to pick up down the road, many stations are experiencing pressure from management to increase sales revenues to help pay for expensive programming and promotions, as well as to help pay down debt from station acquisitions.

"The amount of revenues that these guys need to earn in order to continue servicing their debt is affecting pricing," observes Kenneth Bielicki, media director at Gray, Kirk & Evans, Baltimore. He adds that these sales pressures are compounded by the fact that retail advertisers — the largest local category — increasingly are shifting their ad budgets into tv or are paring them down in favor of price promotions.

With much of their local sales base in disarray, Bielicki says stations are becoming doubly aggressive about

trying to slide in a lot of this programming, because they feel it's worth more money. And maybe it is, but I don't feel it is worth double the daypart norm," says Michaelson.

While national spot performance varies by market and by stations within each market, there appears to be strong demand from several key categories. According to RAB analysis of first-quarter (normally accounting for about 20% of the year's total) data from Radio Expenditures Reports, the food category rose 29.2%, from \$59 million in 1988 to \$76.2 million in 1989. Likewise, the automotive category increased 22.2%, from \$36.9 million to \$45.1 million; consumer/financial services rose 8.8%, from \$18.1 million to \$19.7 million; publishing/media jumped 42.6%, from \$11.5 million to \$16.4 million; and agricultural spending went up 101.5%, from \$6.9 million to \$13.9 million.

think costs per points will go up that much," says Katz's McCurdy. "The better-rated stations will get away with price increases — L.A.'s going bonkers, and there are others — but most won't be able to raise prices too much."

Bennett A. Zier, vice president and director of sales for CBS Radio Representatives, notes the strength of spot sales in '89, but adds, "I don't want to create any false expectations for the future. The second half of the year should slow down. Until the economy overall goes up, there won't be any great movement to raise spot prices."

Chris Brodie, vice president and associate media director, Lowe Marshalk/NY, says she expects 6%-8% increases in the buys she makes for Coke and Columbo Frozen Yogurt.

"There really aren't a lot of outside forces at work on the radio market next year," notes Grey Advertising vice president and assistant media director Joanne Taub. "We don't have a major political election, nor do we have the Olympics." However, she adds, "Because radio has had such high increases this year, one would think it would continue."

Indeed, most radio buyers agree that if there is one variable that will keep the market strong, it is the strength of the bellwether medium: network tv. While there isn't necessarily a direct correlation between tv and radio budgets, a tight tv market theoretically could have a trickle down impact on radio budgets, especially for network.

"Just seeing what's going on in network tv, you get a sense of what people are doing nationally," says GK&E's Bielicki. "Advertisers are flush these days," adds BBDO Worldwide network radio manager Pete Harrington.

Most network radio buyers agree that the bullish tv marketplace should provide strong support for network radio. However, it could also prove to be a bust if radio advertisers merely are shifting money into tv. "It could also be true that all the money is already spent and there isn't any left for radio. I can't really say which perspective is more valid," says Les Goldberg, president of Interep.

TOP 10 NETWORK RADIO ADVERTISERS— 1988

FIRST QUARTER 1989

Advertiser	1988 (000)	Jan/Mar 1988 (000)	Jan/Mar 1989 (000)	% Change
Sears Roebuck & Co.	\$67,612.4	\$11,335.9	\$14,677.9	29.5
General Motors Corp.	38,254.9	7,302.0	8,494.9	16.3
Procter & Gamble Co.	25,533.7	6,221.0	6,941.9	11.6
Bayer AG	18,701.4	5,761.3	2,194.3	-61.9
Campbell Soup Co.	18,571.6	8,961.1	4,111.4	-54.1
Cotter & Co.	18,283.6	3,524.4	3,160.3	-10.3
Warner-Lambert Co.	16,916.4	4,524.2	3,044.7	-32.7
Anheuser-Busch Cos. Inc.	15,391.3	4,269.7	1,790.3	-58.1
US Government	14,706.1	3,268.4	4,910.6	50.2
AT&T Co.	12,310.7	4,473.6	2,546.6	-40.8

Source: Arbitron's Broadcast Advertisers Report

their national rates. Saatchi & Saatchi DFS Compton vice president and associate buying director Sandra Michaelson agrees. "Stations are experiencing a tremendous amount of cost pressures, which we are beginning to feel," she says. This often manifests itself in a push for more expensive long-form programming, which normally commands much higher rates than a station's normal fare. "They're

These gains have been offset by first-quarter declines in several key categories, including travel (-7.1% to \$34 million), communications (-25.7% to \$12.7 million), alcohol (-10.1% to \$12.5 million) and national retail stores (-32.0% to \$10 million). Drug products were flat at about \$10.1 million.

While the current spot market appears healthy, buyers don't anticipate huge increases next year. "I don't

"It could be that people who might have used network radio heavily in the past are using more network tv," explains Bielicki. He points out that national retailers — the largest network radio category — have been very aggressive in tv's upfront market.

If that proves to be the case, it could have a detrimental effect on the network radio market in 1990. It has shown no impact to date, however. According to an analysis of first-quarter LNA/BAR data by the RAB, the retail category increased its network radio expenditures 20.9%, from \$17.2 million in 1988 to \$20.8 million in 1989.

The performance of other key categories is a mixed bag, however. Automotive (+56.3% to \$18.6 million), business/consumer services (+17.9% to \$17.1 million) and travel (+15.4% to \$12.0 million) were all up significantly, but food (-10.4% to \$17.3 million) and drug products (-41.4% to 13.9%) were down.

Still, these major category statistics do not necessarily reflect the momentum of specific advertisers that either entered or significantly increased their

spending on network radio in the past year. Attracted by an increase in young 12-34-year-old demos garnered by CHR (Contemporary Hit Radio) and urban radio formats, such advertisers as Hershey's, Warner Lambert, Levi's, Domino's Pizza and the branches of the U.S. armed forces have recently made major commitments.

Moreover, upticks in young women listeners are increasing demand among female categories, such as cosmetics and feminine hygiene.

What does all this mean for network radio prices next year? "My gut feeling about broadcast, at least on the network level, is that they're all feeling a little more aggressive," says Mike Walsh, senior vice president, media director, Ketchum Advertising/Pittsburgh.

He's right. With the figures for '89 to back them up, most network people are predicting "nice increases." Trish Healy, director of sales planning for the ABC Radio Networks, went so far as to predict a 10% increase in prices. Westwood One director of sales Greg Batusic is taking a "wait and see approach. If it continues to be a healthy

market, increased demand will mean increased prices."

However, other network people are a bit more cautious. "I don't see any significant increases," says CBS vice president of sales Steve Youlios, who predicts prices will rise 5%-6% in '90. "If a medium gets cocky, it will lose people. Increases won't be flat in terms of CPMs for '90, but I don't think the medium will be so foolish as to increase like crazy," he says.

As might be expected, agencies echo the sentiment. "Let's not use a banner year to raise prices too high," says Dennis McGuire, radio supervisor at N W Ayer/NY. "The only constant in this business is change. By aggressively pricing inventory for '90, they could end up scaring people away."

Ketchum's Walsh says, "I expect price increases around 10%. Certainly there will be some clients who will pay it, but a lot of clients will look seriously to alternatives. Hopefully there will be compromises in timing. I don't think high increases will go across all time periods, everyday. We just have to be light on our feet this year." ■

A CONVERSATION WITH JUDY JORDAN

Judy Jordan is assistant vice president of advertising and sales promotion for Delta Airlines.

On radio's benefits: "No other medium can conjure up mental images as well as radio can. Sometimes it seems that radio can 'picture' a product or service to the mind's eye better than print or television. It involves the audience like nothing else. If you think I'm exaggerating, listen to some of the people who phone in to radio talk shows."

On radio's challenges: "One of the most serious is this: Much of the audience is listening with half a mind. Radio listeners are often doing something else at the same time — driving a car, reading a newspaper or driving a car and reading a newspaper. So



the big challenge for the advertiser is to hold that listener's attention."

On possible radio advertising price increases in '90: "Everybody has an increased cost of doing busi-

ness. We still see the value of radio and have no intention of abandoning it, although something like a 10% increase is a bit high. But we're kind of a captive audience, you know."

On the National Association of Attorneys General advertising regulations (which mandate that every condition of sale be listed in an ad that mentions ticket prices): "At Delta, we're actually using radio less than we did a short time ago. This is unfortunate, but the NAAG has attempted to regulate our radio commercials to an extent that makes it difficult, to say the least. We've found radio to be the best medium for introductory fare ads — they're easy to record, quick, etc. But this most expedient means of talking about fares is no longer usable."



BUYER TO SELLER: YOUR MOVE

Publishers are introducing their rates carefully under intense scrutiny by buyers.

by Rebecca Fannin

Communications may be their business, but when it comes to consumer magazines, buyers and sellers don't seem to be speaking the same language lately. What clients want from their agencies, what the agencies expect from publishers and what publishers want to sell all seem to be going in different directions. One of the few words they use in common is "value," but it's defined differently by each.

To budget-squeezing advertisers, value often translates as the lowest price. Agencies, looking to underscore their strategic value as well as their clout, judge value not by price alone, but by impact, and they are putting the pressure on publishers to give more and more extras for each ad dollar. Publishers, meanwhile, find the quality and marketing value of their titles and audiences can take second place to discounts and expensive bells and whistles. Naturally, in this environment, when the issue of price increases pops up, so do the blood pressures of everyone involved.

This year promises to be no exception. The fragmented media marketplace, tight ad budgets, fierce competition within the medium and the inroads into print made by sales promotion all seemed to set the stage for

modest increases to keep a competitive edge. But as publishers see their income eroded by discounts, added-value costs and big jumps in the prices of sub sales, printing, postage and paper, they apparently feel it's time to catch up. They're planning on increases in the 8% range, a rate that exceeds the 6% jump in 1989.

Publishers say they're still recovering from 1988. Paper mills increased prices twice during 1988, by 4.5% in January and by 4.8% in July. A 5% jump this year was rescinded after pressure from buyers, according to *Pulp & Paper Weekly*. The magazine estimates paper will only rise by 3% next year. As for postage, it isn't expected to go up again until 1991, though Robert Farley, senior vice president at the Magazine Publishers of America, foresees a 20% hike at that time. And in 1988, second-class postage jumped by 18% and third-class, used for circulation drives, was up 25%.

Buyers remain unimpressed. "The impact that postage and paper costs have on the bottom line has been seriously exaggerated," says Nancy Smith, senior vice president and director of media services at Young & Rubicam. Despite their own inflationary cost pressures, "our clients don't raise their products' costs every January," she points out.

Some view the bullish hikes as in-

surance against the new public negotiating stance of the major agencies. "We will be negotiating smarter this year because we have real print specialists asking questions," says Smith. "The discussions will be real tough," she warns. "We don't want any increases that exceed real overhead."

The costs of publishing, however, have consistently outpaced the Consumer Price Index (see chart, pg. 74), and publishers' ability to cover these increases has been dramatically undercut by the agencies' aggressive negotiating abilities.

At Grey Advertising Inc., which recently set up a print unit, Paul DuCharme, vice president, director of print media, says he has slides showing that the agency can beat the substantial volume discounts offered to corporations with multi-agencies. Smith at Y&R says she tracks her new negotiating committee's performance daily. "There's no question about it," she says. "We know the rates we are getting are absolutely better" than before Y&R established the committee. But she declines to say how much larger the savings are. And at Kraft General Foods, which is a heavy magazine advertiser, Bill Landgraf, manager of media development, says advertising savings are in the high teens for women's service books.

Each deal is a new deal, and dis-

counts are earned in many ways, ranging from multi-year contracts and first-time ad rates to special discounts for new advertising categories. Once contained among the competitive women's service field, most buyers and sellers report that the discounting, both on and off the card, is now widespread in every group.

Condé Nast, one of the last hold-outs and a pioneer in creating package buys to meet the demands for efficiency, has recently printed a new rate card with additional discounts. It offers advertisers volume discounts on the company's individual women's titles, *Vogue*, *Mademoiselle*, *Glamour* and *Self*. The reduction ranges from 4% for three pages in one of the books to 20% for 48 pages. Previously, advertisers could only get a volume discount by placing pages in all four magazines or in combination with *Bride's* magazine. "The market is changing, and we realize that advertisers want to mix and match titles differently," says Joe Fuchs, executive

vice president at Condé Nast Publications. "This is a major change for us."

Condé Nast's package allowances, which have been available since 1960, were also increased slightly last year. Buyers believe the policy change was necessary to avoid hurting revenues in a super-heated marketplace. "The fashion niche is more competitive than ever," points out DuCharme at Grey Advertising.

Advertisers and agencies, which believed they held the edge in such an environment, are annoyed by publishers' planned increases. "It was naive of me to continue hoping that the competitive nature of the magazine business would lower ad rates," says Dan Pearson, media director at RJR/Nabisco Inc., which buys magazines in-house and ranks as the third-largest spender in the medium. At another large supporter, Kraft

General Foods, Landgraf says, "It's somewhat disconcerting that increases are higher than we anticipated. There doesn't seem to be an observable cause, like greater circulation, improved paper stock or editorial."

Some buyers accuse the magazine publishers of behaving like car dealers, who jack up stickers to a false level only to allow room for haggling. "Padding is the reason we're seeing such high increases," notes DuCharme, "but it might be more rational to offer better rates in the first place to avoid this step."

The buyers also resent publishers' efforts to soften the blow by introducing rate hikes in stages, such as twice annually in smaller doses. According to DuCharme, 18 magazines have increased rates unexpectedly during the third quarter of this year. "About eight to ten of these are pure rate increases and the others are increases to the rate base," he notes. "The rate-base increases didn't change the cost per thousand," acknowledges DuCharme, "but it's the out-of-pocket costs that concerns us." He explains that clients hadn't budgeted for the increase and



TOP 10 CONSUMER MAGAZINE ADVERTISERS— 1988

FIRST QUARTER 1989

Advertiser	1988 (000)	Jan/Mar 1988 (000)	Jan/Mar 1989 (000)	% Change
Pepsi-Cola Bottling Co.	\$1,091,799.8	\$56,327.5	\$68,832.3	22.2
General Motors Corp.	905,061.2	48,182.2	62,089.4	28.9
RJR Nabisco Inc.	457,735.3	28,277.1	41,150.8	45.5
Ford Motor Co.	420,540.0	28,200.1	41,478.8	47.1
Chrysler Corp.	349,510.5	41,443.9	30,799.6	-25.7
Procter & Gamble Co.	813,014.2	24,206.6	18,336.1	-24.3
AT&T Co.	341,320.4	11,292.5	16,067.3	42.3
Time Inc.	164,694.3	18,687.9	21,037.7	12.6
Nestle SA	299,929.1	12,818.2	17,370.5	35.5
Unilever N.V.	362,948.2	14,386.3	14,749.3	2.5

Source: Leading National Advertisers

will be forced to cut the number of magazine ad pages. "It's the surprises that kill us."

Some advertisers simply refuse to recognize this tactic. "We are taking the position that these mid-year increases must be held in abeyance," says Pearson. "We need protection at the old rate."

Better Homes and Gardens is under pressure for hiking rates 7.73% this coming September after a 6.7% increase last November. Former publisher Del Rusher reasons that by introducing the rate increase earlier in the year, the magazine avoids those surprises that DuCharme says are a budgeter's worst enemy. "If we waited until September to make this announcement, we would have been forced to raise rates by 10%," says Rusher, adding that there is "no fat" left to be cut from the magazine's budget. "Postage has been a

heavy hit for us because 93% of our circulation is in the mail," Rusher notes, adding that experiments with alternate delivery methods so far have not pointed the way to reduced costs.

Another surprise that advertisers intend to fight is the threatened elimi-

nation of the 2% cash discount to agencies paying within 10 days. "The women's service field is playing with this idea, and they are selectively testing it, but we are all very much against it," says DuCharme at Grey. In addition, RJR's Pearson, noting that "this is obviously a rate increase," warns that "if they eliminate the cash discount, they could price themselves out of business."

Other charges, though smaller, continue to stir up buyers. Premiums for bleed (extending four-color past the margins) remain one sore point. "The additional charge isn't much money, but it's an annoyance," says Landgraf. He's equally piqued by premiums for regional editions. "We always try to negotiate these out, and we have had a fair amount of success. But they are still on the books and unreasonably so." At RJR, Pearson says he makes use of split runs of national pages that are then divided among three brands to reduce the regional premium.

Despite such grumbings, advertiser investments in the medium for 1989 can be taken as a vote of confidence. Robert Coen, senior vice president and

MAGAZINE PUBLISHERS' COST INCREASES

	Paper	Printing	1st Class	Postage 2nd Class	3rd Class	Salaries	Consumer Price Index
1970	100	100	100	100	100	100	100
1977	175	171	217	218	197	161	156
1978	197	185	250	290	221	172	168
1979	211	200	250	343	221	181	187
1980	235	220	250	343	221	202	212
1981	259	242	300	321	274	226	234
1982	270	266	333	348	287	253	249
1983	262	271	333	348	287	271	258
1984	301	279	333	348	287	287	269
1985	345	287	366	407	316	301	279
1986	324	292	366	407	316	316	284
1987	334	298	366	407	316	329	295
1988	389	304	416	481	395	342	310
1989	399	315	416	481	395	359	326

Source: James B. Kobak & Co.

director of forecasting for McCann-Erickson, sees revenues (as reported by Publishers Information Bureau) increasing some 10% while pages will increase 3%. Strong gains ranging from 10% to 26% in the first quarter were reported for such major categories as foods, toiletries, resorts/tours and airlines. Meanwhile, cigarette advertising in magazines jumped by 35%. However, drugs/remedies, candy/soft drinks and restaurants showed steep declines in the 25% range.

Publishers obviously are sensitive to the buyers' complaints, and they are attempting to ease the sting of any planned increases. Condé Nast, for example, recently raised rate bases for *Vogue*, *Self* and *Condé Nast Traveler*, but is offering advertisers rate protection at the former level until the end of the year.

But CN's Fuchs is quick to sound the publishers' argument that the buying process has been turned on its head: Advertisers, he says, should be buying space not by the lowest page rate but based upon a publication's quality and marketing strength. "We haven't cut back on on-location photography, four-color pages or resorted to paying sec-

ond or third copyrights to material," says Fuchs. He also notes that his company, along with others, tries to balance cost increases between advertisers and readers. Although he explains that "it's risky to increase prices for magazines with heavy newsstand sales," he says cover prices for *Bride's* (now priced at \$5 per copy), *Mademoiselle* and *Glamour* recently have been raised. Figures from magazine consultant James B. Kobak show publishers' revenues have been equally divided between advertising and circulation through the 1980s, as opposed to 2:1 ad/circ ratio in 1970.

One magazine relying more on readers than advertisers for more revenues is *Sports Illustrated*, which raised the rate base in July 1989. Publisher Donald Barr points out that this actually decreased his CPM, since page costs rose by 3.5% while guaranteed circ rose by 5%. To fill out the revenues, *SI* is attempting to pass along the highest increases to readers. Newsstand prices jumped by nearly 20% recently, and introductory subscription rates also went up, by 25%.

Better Homes, with its highly competitive market and a multi-media par-

ent, Meredith Corp., is responding to its highly competitive marketplace with extensive value-added packages. Meredith can customize a marketing program for advertisers, including everything from a promotion event and point-of-purchase displays to list rental for direct-mail efforts and printing and research services. Rusher says that about 25% of the magazine's advertisers contract for some kind of additional service from the magazine publishing company.

Kraft, for instance, opted for a 12-page insert featuring recipes and coupons for a multitude of brands. Cookbooks were sold by the supermarkets or were offered free with proof of purchase. Promotional support for Kraft included tv time purchased on Meredith stations.

Kraft is one advertiser that makes magazines work for its business. Kraft agencies coordinate merchandising programs and specify to the magazines what kinds of services are needed, a switch from the typical practice of waiting to see what the publication will offer. "Merchandising isn't exactly a magazine's forte, but they are very competitive and come up with impres-

A CONVERSATION WITH PAUL DuCHARME

Paul DuCharme is vice president, director of print media, at Grey Advertising Inc., New York.

On rates: "We're seeing increases in some cases as high as 10%. But I think some of this is padding to allow room for negotiating the prices downward later. What is really troublesome is that some magazines have opted to raise rates in the third quarter of this year. That means two rate increases within a 12-month period. It's this additional out-of-pocket cost that concerns us. We will have to cut the number of pages in magazines because of this increase. It's surprises like this that kill us."

On negotiation: "This year is pivotal because of the proliferation of



negotiation. There are very few hold-outs who won't negotiate. Because of the pressure advertisers are putting on publishers to hold down rates, however, more are trying to pass along

additional costs to readers. For some lifestyle books, the cover price is \$5. Another way magazines are trying to recoup costs is by adding any circulation bonus immediately to the rate base."

Multi-year discounts: "These are difficult to sign up for because of the high out-of-pocket cost. It only makes sense for a core book that you can't live without."

Value-added programs: "This is making marketing more efficient because consumers are getting the message in many forms, like at point-of-sale or through custom publishing. It gives magazines an advantage over the sight, sound and motion of tv. But increasingly, these programs are being added at extra charges."

MAGAZINE ADVERTISING RATE INCREASES COMPARED TO OTHER MEDIA COST PER THOUSAND

	1970-1980	1980-1989	1970-1989
Consumer magazines	56%	84%	187%
Business magazines	28	77	127
Day net tv	77	44	155
Eve net tv	67	151	319
Newspapers	75	109	266
Supplements	48	89	180
Net radio	8	83	98
Outdoor	53	132	255
Consumer Price Index	112	54	226

Source: James B. Koback & Co.

sive packages," Landgraf notes.

Many advertisers, however, would prefer magazines to decrease the page rate rather than try to entice them in-

stead with additional merchandising packages. "Merchandising is something that I've never been interested in," says Michel Roux, president of

Carillon Importers, which sells Absolut vodka. "Whenever we are offered merchandising allowances, I prefer instead to give the money to a charity," he adds.

RJR doesn't take advantage of the value-added programs much either, according to Pearson. "We prefer adding visibility and impact to our ad pages by getting the best positions in the magazines," he says. "Most of these merchandising programs are too targeted for our broad-based market," adds Pearson.

It might be expected that open negotiations would result in greater understanding and communication among all the parties, but thus far, that doesn't seem to be the case. But as hot-tempered buyers and sellers sit down to talk and hammer out rates, and each grows more accustomed to the process, many remain hopeful. They see that may in fact be the case in the years ahead and the medium will be stronger as a result. ■

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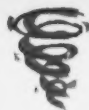
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THE TAILORED BUY

Tight times have led to new opportunities as publishers look to cover costs without scaring off their customers.

by *Frank Sommerfield*

Depending on which side of the fence you are sitting on, buying and selling space in business publications will either be a fairly enjoyable experience this upcoming year or one that makes you grimace. As far as buyers are concerned, the soft general environment for business books has made publishers far more amenable to offering rate deals and value-added services. "Ad space rates in business publications are getting more and more negotiable," finds Roy Minster, media director at Hammond Farrell Inc. "I've been able to negotiate some very strong rates."

Naturally, this turn of events is not exactly pleasing to business publishers. Not only were they unable to get large enough price increases last year to cover substantial hikes in paper and postage prices, but they had to reach further into their pockets to give advertisers the extras needed to coax them into advertising at all. While the expectation had been that business books' rates would rise, on average, 8% to 9%, the reality was closer to 6% or less. And 1990 is shaping up to be pretty much a repeat of last year. "Increases of 4% to 8% are likely, and will probably be at the middle of that range,

when at all possible," believes Phil Meek, president of Fairchild Publications.

The only good news in this scenario for publishers is they'll get a bit of a breather this year as paper and postage costs are expected to stay stable. Over the last two years, paper costs climbed 22%, and postage rates some 25%. "1990 will be a tight year, but only moderately tight compared to the previous year because postal rates won't go up until '91," says John Emery,

president of the Association of Business Publishers (ABP). At that time, postage rates may shoot up by 20%.

"Publications are going to be forced to look for alternate sources



of revenue," he says, mentioning such things as list rental. "And they will have to raise ad rates," he emphasizes, "because they can't raise subscription or newsstand rates — they're mainly controlled."

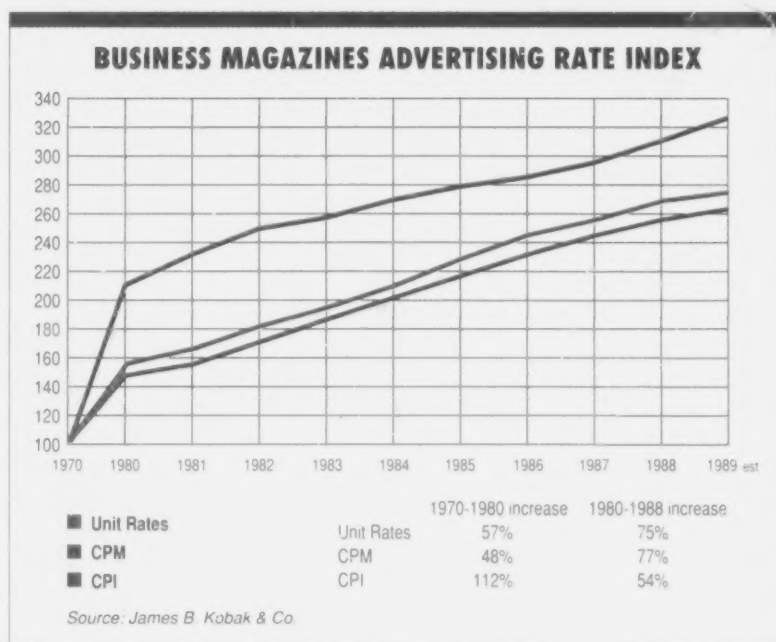
The bottom line, says Robert Burton, head of Cap Cities/ABC's business publications, "is that even if we're looking at a 6% to 8% increase in 1990, we're still going to be trying to recoup some of those dollars we never got back over the past couple of years."

Publishers will have to live with the squeeze, and try to find ways to internally trim their cost structures. A luxurious price increase simply wouldn't go over well in the current environment. "Business isn't as healthy as it has been in the past, so advertisers aren't increasing ad budgets to keep up with inflation," says Carla Loffredo, senior vice president and media director at HDM.

For example, Bethlehem Steel started trimming the number of magazines it advertised in several years ago when the steel industry ran into trouble. Paul Slaughter, Bethlehem's marketing and communications manager, says the company has decided to stay in that frugal mode, even though it could probably afford to increase its ad budget a bit. Slaughter explains that they're only promoting the items that need it, such as new products. They found that even though they had cut back on their list, the effectiveness of their ad efforts had not been affected.

But it is not just the Rust Bowl. The computer area, which had increased its spending strongly in the last two years, is stable, but may be shifting focus. "Right now a lot of computer companies with desktop product are increasing ads in networking publications and not necessarily computer magazines," says Paul McPherson, director of ad sales for *Network Word* magazine. "It's the same size pie, but the slices have changed. Most budgets are flat and being rethought."

Budgets are also more cut up than ever. "The real growth in advertising is in trade shows, telemarketing and those direct-sales type of media tools,"



says James White, vice president-corporate marketing at Chilton Publishing. Over the past seven years, sales promotion and direct marketing budgets have surpassed business and consumer print ad budgets combined, according to Fergus O'Daly, chairman of Poppe Tyson.

With competition hot for ad dollars, publishers are finding it increasingly tough to enforce their rate cards. "From where I sit, rate cards are becoming like they are in broadcast: guidelines," proclaims Ben Polk, media director at the Shalek Agency in Los Angeles, which handles such b-to-b accounts as MGM Grand Air and Gibraltar Savings. "At some of the travel-industry trades, I'm sensing that they'll be willing to customize a rate for a specific advertiser. For instance, you might wind up getting a national circulation for a non-national rate." Adds Joseph McKenna, senior vice president at HDM Advertising, "While some business publications have said they'd never negotiate, I see them starting to do it anyway."

There are even some who suggest, self-servingly perhaps, that certain categories of books — where either the field is crowded, or where the industry it covers is hurting — may have a hard time putting in any increase at all this

year. "Some industries, like financial, will announce they're holding rates," predicts Hammond Farrell's Minster. "The 1987 stock-market crash really had an impact on a number of business books, and now the advertisers are slowly coming back. In this case, the publisher's task is to get back those advertisers," he says.

The more common scenario, though, will be a kind of deal-making that doesn't involve direct discounts off the rate card. Publishers will likely give heavy advertisers bulk rates. For instance, if an advertiser agrees to place ads in a whole group of a publisher's magazines, a special rate will be negotiated.

Agencies are gearing up to take advantage of such programs. "I'm starting to look at publishing houses instead of titles, with the hope of economies of scale for my clients. It's a new thing," says HDM's Loffredo.

Some observers, however, disagree. "If you agree to advertise in 10 of a publisher's 30 titles for a special rate, you might not get the best titles, so the whole thing sometimes isn't worthwhile," warns Joseph McKenna, Loffredo's colleague at HDM.

Agencies complain that while it sounds wonderful in theory for a publisher to offer services such as market

research, mailing lists and conferences as thanks for a schedule, the reality is that the "extras" may be of minimal use. "I suppose the research is better than nothing, but it may not be better than doing your own research project," says Roderick Sipe, marketing communications manager at OSRAM, an industrial light bulb manufacturer. Adds Minster, "Most publications never really invested much in that stuff, because the last thing they wanted to do is increase expenses."

But while some advertisers complain about the quality of the value-added from one side of their mouths, the other side is asking for more. And some publishers are offering sophisticated, and costly, programs to increase the value of their basic pages.

Chilton's White is confident he will be able to provide the right kind of package. "I am now able to say to an advertiser, 'I now have a marketing tool for you, not just a magazine. I can research into a market with a product, supply readers with secondary infor-

mation and showcase advertisers through a seminar,'" he says. The publishing company now offers an on-line data base that includes market information not published in the magazines; a telemarketing service to communicate with respondents to ads; and studies of an advertiser's image among its clients.

Penton Publishing Inc.'s services are just as impressive. "For example, we've had a value-added program where advertisers earn credit by the frequency of advertising," reports Sal Marino, Penton's president. "Credits include additional ad space or additional services, such as printing, research and use of a resort for sales meetings. We instituted this in anticipation of a negotiated rate situation like we have now."

Polk of the Shalek Agency says he's impressed with the strides travel trade magazines are starting to make vis-à-vis value-added. "One publisher directly brings leads to travel companies, and another has trade shows where our

clients are introduced directly to their potential clients," he says.

This is the way of the future, most agree. "Publishers will have to look at each client as an individual and see what the needs are in terms of value-added. It must be tailored," says Lofredo.

Such demand for value-added services cuts into business publishers' profitability. Over the last few years, most publications have tightened up their operations to help maintain the bottom line.

But further cuts, say publishers, may be self-defeating, hurting editorial quality and/or the sales effort. "With the current paper, printing and publishing costs, margins are being squeezed and therefore there's not much room for cost-cutting," says Marino. "Costs will have to be passed on even though the market has not been conducive to rate increases." Agrees O'Daly of Poppe Tyson, "The publishers just can't scale back any more. They've already done it." ■

A CONVERSATION WITH PAUL SLAUGHTER

Paul Slaughter is marketing and communications manager at Bethlehem Steel.

On formulating a media plan:
"We've looked hard at all the expenditures and simply have sought to get more bang for the buck. We've tried to eliminate publications where there's duplication. Where we were in three or four publications that covered a given audience, maybe now we're in two."

On getting the point across:
"We've become much more targeted in terms of messages and specific audiences. The general, institutional message, which might have been part of our plan years ago, is gone. We have very specific audiences that we want to reach. We're demanding better advertising and getting it by setting very clear objectives. It's

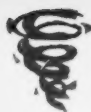


remarkable what you can do when you don't have money."

On formulating a budget:
"We've already got a small budget, so we don't look for it to shrink much.

But we're taking some money out of traditional advertising and putting it into other things. We've shifted money into video, for instance. We keep the budget sharp by being zero-based each year. All the assumptions of the previous year are out. We start fresh each year."

On being innovative: "We have spent money to develop a pull-through strategy when it comes to trade advertising. We've started advertising to the end user, in other words, our customer's customer. We link our customer into their market and develop inquiries for our products through direct phone marketing. We're trying to create a demand in the market. Doing this didn't necessarily increase our media budget, because we had to pull off money to do the telephone marketing, which was the key."



THE PRICE OF PROGRESS

Buyers say newspapers are easier to use than ever. Unfortunately, they add, they're also just as expensive.

by Bill Gloede

For most of the past 10 years, the newspaper business has engaged in a wrenching process of self-examination that publishers hoped would lead to the rebirth of newspapers as a medium for national advertising. But, to date, the industry's efforts have yet to produce dramatic results. The reason, buyers say, is very clear: price.

During the past decade, the industry created, at considerable expense, a standard set of ad sizes so advertisers and their agencies could be sure ads would look the same in all papers. It agreed to and partly funded a system of standardized, syndicated research with which agency planners could reliably evaluate newspaper readership on a national basis. It created a standardized rate-card format and several different networks of newspapers in which an agency could place national ads with a single telephone call.

But over the same period, newspaper circulation — and more importantly, the percentage of homes reached by newspapers nationwide — has remained flat, while advertising rates have increased. The result has been that newspapers are a less efficient national buy today than they were in 1979.



NEWSPAPERS: THE DECADE IN ADVERTISING

	1980	1981	1982	1983	1984	1985	1986	1987	1988	'89
Newspapers										
Total	\$14,794	\$16,528	\$17,694	\$20,582	\$23,522	\$25,170	\$26,990	\$29,412	\$31,197	\$32,685*
National	1,963	2,259	2,452	2,734	3,081	3,352	3,376	3,494	3,586	3,695*
Local	12,831	14,269	15,242	17,848	20,441	21,818	23,614	25,918	27,611	28,990*

*Preliminary estimates
Source: McCann-Erickson

It's no surprise, then, that in 1988, just as in previous years, newspapers' collective share of total national advertising declined. The 1988 share was 5.4%, according to McCann-Erickson figures. So far in 1989, it appears that trend continues unabated, with McCann predicting newspapers' national dollars will reach \$3.7 billion, or 5.2% of the national total. And the erosion should continue into 1990, buyers predict, when rates are expected to rise between 5% and 7%.

"Newspapers certainly are easier to work with than they used to be," says Jack Cohen, vice president and director of print/outdoor media buying for DDB Needham in New York. "But in buying media, it all comes down to cost, and the cost of a national newspaper schedule is astronomical."

Consider this: A four-time, full page black-and-white insertion covering the top 50 markets, with 24 million circulation, would cost an advertiser roughly \$950,000 per run, or a total of \$3.8 million. The same four-time insertion covering most of the country, with 63 million circulation, would cost \$3.1 million per run, or a total of \$12.4 million. For that money, an advertiser can develop a mighty network television buy that will theoretically prove far more efficient in terms of cost per thousand consumers reached.

"Pricing has always been one of the big hangups with newspapers," says Dan Pearson, senior director of media for the R.J. Reynolds Tobacco Co. in Winston-Salem, N.C. "It's just the bloody absolute cost of any kind of continuity newspaper program. The cost they ask versus the return they pro-

vide, at least up to this point, can't be justified," he maintains.

The key words in Pearson's comment are "up to this point." That's because print buyers are beginning to find a new willingness on the part of newspapers to talk about rates. Although any kind of collective rate setting is prohibited by federal anti-trust laws, individual newspapers and newspaper groups are beginning to tackle the rate issue by creating new package buys that offer steep discounts for frequency. They have established new, lower rates for advertisers such as packaged-goods companies that do not normally use newspapers. They are also developing new types of special, usually fixed-position advertising units that, since there is no provision for such units on the rate card, are sold on

the basis of negotiated, not fixed rates.

"We have seen, in some cases, that it's easier to negotiate with newspapers than it has been in the past," reports A.R. "Bud" Shields, manager of newspaper buying for Lintas: Campbell-Ewald in Warren, Mich., the agency of record for General Motors Corp., which is the largest buyer of national newspaper space. "Newspapers are beginning to more or less realize the problem. I think they can make a comeback."

Jerry Tilis, vice president of marketing for Knight Ridder Newspapers, agrees that more aggressive discounting by newspapers could lead to a turnaround in national. "I think the term 'negotiated' has a sort of under-the-table connotation that it ought not to have," he says. "But increasingly,

TOP 10 NEWSPAPER ADVERTISERS—1988

FIRST QUARTER 1989

Advertiser	1988 (000)	Jan/Mar 1988 (000)	Jan/Mar 1989 (000)	% Change
General Motors Corp.	\$905,061.2	\$31,483.9	\$14,066.2	-55.3
General Motors Corp. Local Dealers	173,232.4	16,570.3	17,210.2	3.9
Texas Air Corp.	97,954.3	13,337.5	23,268.6	74.5
Philip Morris Cos. Inc.	1,091,756.3	10,408.8	6,255.9	-39.9
Ford Motor Corp. Local Dealers	147,345.7	12,933.0	12,626.9	-2.4
Ford Auto Dealers Association	140,115.6	12,048.4	9,416.9	21.8
RJR Nabisco Inc.	457,735.3	880.0	2,181.3	147.9
AT&T Co.	341,320.4	7,949.7	15,660.6	97.0
American Express Co.	169,140.5	7,534.6	4,965.6	-34.1
Warner Communications Inc.	85,948.6	7,787.0	10,658.6	36.9

Source: Leading National Advertisers

newspapers are starting to use price as part of the selling equation. If you can't sell one thing for \$1, maybe you can sell two for \$1.80."

DDB Needham's Cohen says he's seen little in actual price negotiation in the newspaper business. Most of the discounting he sees is based on frequency schedules or repeat rates. Though he doubts newspapers will abandon their rate cards anytime in the near future, Cohen believes they eventually must begin negotiating rates.

"In the rest of the world, rates are negotiable," says Cohen. "Newspapers are the only major medium that still adheres to the rate card."

And rate card rates, like income taxes, increase just about every year. A consensus opinion among buyers and sellers of newspaper space indicates that rate increases for national advertisers in 1990 should be modest.

Shields sees no more than a 6% to

7% increase; Cohen is figuring on a 7% increase. RJR's Pearson, who believes softness in the price of newsprint will give publishers an unexpected profit "windfall" in 1990, believes papers will hold increases to 4% or 5%.

Robert J. Coen, senior vice president and director of forecasting for McCann-Erickson in New York, believes rate increases will stay "pretty much in line with inflation." He expects overall newspaper rates to rise in the 5% to 6% range, although he notes that if the national economy sours and causes softness in the retail advertising market, newspapers could seek to make up for that softness by further raising national rates.

Bill Harrison, vice president and New York manager for Million Market/Times Mirror Newspapers, says his firm is expecting rate increases to average 6% to 7% in 1990. At Gannett, Gary Sherlock, president of Gannett

National Newspaper Sales, has not yet developed an estimate of how much rates will rise next year. But he expects newsprint prices to remain stable through at least the end of the year, which will help publishers keep rate increases down. Tilis of Knight Ridder also has not come up with an estimate of rate increases. But he said, "What do I see for 1990? More of the same."

One newspaper rep for a big national firm, who would not speak for attribution, put it this way: "The days of double-digit increases are disappearing. Business isn't that good, and all we hear are complaints about rates."

According to the Newspaper Advertising Bureau in New York, national advertisers spent \$3.58 billion in newspapers last year, an increase of 2.6% from 1987 levels. At the same time, general (national) open rates increased 7.2%. Though an index of rate increases is based on open general rates,

A CONVERSATION WITH DAN PEARSON

Dan Pearson is senior director of media for R.J. Reynolds Tobacco Co.

On the continuing erosion of newspapers' share of national advertising: "I don't have any reason to believe the share erosion won't continue, although some of the things that newspapers are doing may help reverse the trend. I'm not sure they've taken hold yet."

On industry efforts to reverse the trend: "I think newspapers are becoming more unpredictable, which is, in a sense, good. They're seriously struggling to try and come to grips with what to do to maintain their advertising base."

On efforts to increase national sales: "I'm picking up word of increased activity by individual papers working with primarily food companies that are going to more regionalized structures and programs. Individual papers are starting to get themselves into the advertisers' pro-



grams by coming up with localized, tailored kinds of packages. That's helped them get some business that they were not able to get in the past."

On the future of negotiated rates: "There has been a lot of that, but it isn't negotiated in the bad sense of the word. It isn't, 'Our published rate for a column inch is a buck, but we'll

give it to you for x.' It is negotiated in the sense of commitments to them for non-standard units in fixed positions and other kinds of spots in the paper for which a rate has never really been established. There's a much broader interest on the part of the industry in general to try to find those kinds of things."

On RJR's plans for newspapers in 1990: "Even though we continue to develop and execute our plans from a central location, I think we are regionalizing our activity more and more. And that's got to help newspapers. We've got a couple of tests in the field that, if they pan out, could really help the medium. Several of our products have campaigns that are geared to the newspaper medium, so that has potential."

"But you still have some of the basic negatives. It's just the bloody absolute cost of any kind of continuity newspaper program. The cost vs. the return, at least at this point, can't be justified."

which are higher than those paid by advertisers who buy more than one ad in a year, a comparison of the two figures indicates a net loss in national advertising lineage.

In the first quarter of 1989, the NAB reports continued softness in national, with spending up only 1.7% to \$894.5 million.

There are however, some bright spots in newspapers' collective future.

One is the growing number of newspapers that can print quality color advertising. The National Four-Color Newspaper Network, which is sold by Gannett but includes newspapers owned by other companies, just received a major circulation boost with the addition of the *Los Angeles Times*, which joined the network in early July. An advertiser can now buy a four-color ad in some 300 newspapers with an

aggregate circulation of 32.6 million through the network.

Newspaper reps are also encouraged by the rising cost and decreasing efficiency of network television time. In the recently completed network upfront selling season, during which advertisers buy time for the coming year, the Big Three claim to have sold \$4 billion in prime time, a 13% increase over the last year. Rate increases averaged between 13% and 14%, despite a 3% decline in the prime-time audience during calendar 1988.

"I think newspaper national has to pick up," says Knight Ridder's Tilis. "There's been very strong upfront buying in tv at prices that are absolutely off-the-wall."

Does that mean advertisers will take a fresh look at newspapers as an alternative to tv? Tilis thinks so, based on what happened to newspapers during the days of double-digit rate hikes.

"Newspapers were very aggressive in pricing national, and that cost us," he says. "Now, we're a much better buy relative to the competition, and we're more sensitive."

It remains to be seen whether the newfound willingness to keep rates under control and to negotiate at least some prices with advertisers will slow the erosion of newspapers' national revenues. The erosion, according to Million Market/Times Mirror's Harrison, has been partly attributable to efforts on the part of some big national advertisers like automotive and consumer electronics companies to enter newspapers "through the back door" by using cooperative advertising with retailers to obtain lower retail rates.

"I think the erosion will slow down in 1990, but I don't think it will go away," said Harrison.

Gannett's Sherlock is more optimistic. "If 1990 is not a turnaround year, certainly we should see the rate of erosion leveling off."

Coen of McCann-Erickson also believes newspapers can reverse their declining national fortunes, but only "if they can really work with the very biggest national marketers who are looking intensely for anything they can call a deal." ■

WEEKDAY & SUNDAY REACH



TOTAL MSA, 485,000 ADULTS

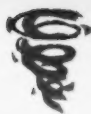
LAS VEGAS REVIEW-JOURNAL

For marketing information, contact:
Trudy Patterson, National Advertising Manager
(702) 383-0363

or write:
P.O. Box 70, Las Vegas, Nevada 89125-0070.

Represented by the Papert Companies

SOURCE: 1988 BELDEN CONTINUING MARKET STUDY



LESS SMOKE, BUT MORE FIRE

When tobacco went up in smoke, out-of-home went on the alert. The results are new ad categories and a tightening market.

by Paul Edwards

Outdoor's caught the marketing bug, and with good reason. With the threat of an all-out advertising ban on tobacco products looming ever larger, outdoor advertising companies, both 30-sheet and eight-sheet, are doing all they can to insure that their new-business efforts continue to thrive.

Companies have increased their capital spending to build new plants and modernize existing ones in an effort to make them compatible with outdoor's new computer-painted ads. They also are investing heavily in computer mapping systems that allow advertisers to reach targeted demographic segments. And they're actively getting the word out: Not since the early '70s, before tobacco turned to outdoor, have the outdoor companies mounted such an aggressive sales effort.

They're being heard. Last year's revenues increased 6.6% to nearly \$1.42 billion. That gain outpaces an average price increase for posters and painted bulletins of just 3.8%, an increase that's likely to be repeated in the coming year.

"The tobacco industry cut its advertising back sharply in 1987, and that shocked us," says Tom Hudson, vice president, national marketing and sales for Patrick Media, referring to a 14%

drop. Though it came back in 1988, the Institute of Outdoor Advertising says tobacco's share of outdoor business has fallen from 40% in 1979 to 25% today. "We realized that we had to respond, that we had to restore the 'Go get 'em' attitude that we once had. So now we're going after many different categories, and it's our intent never to be totally dependent on just one or two categories again."

"The industry would like not to have to rely on tobacco," says C. Peter Riordan, vice president, Out-of-Home Group, BBDO Worldwide, New York. "Before tobacco came along, liquor used to be number one. Now liquor is down to number five, representing just 4% to 5% of total revenue."

Like many in the industry, Riordan has his eyes on packaged goods. "This is the category that should grow the most," he says. "It's a tough sell — people in that business love tv."

But Riordan points out that there are two reasons to anticipate packaged goods' greater use of outdoor. The first, he says, is the emergence of regional marketing. Those packaged-goods marketers who've used outdoor to reach the Hispanic market, he says, have achieved very strong results.

The second reason, he notes, is the difficulty that packaged-goods marketers have had with retailers. "Advertisers are looking for visibility near

stores. If you can get a sign near the store, it will be easier to convince the retailer to give you additional shelf space."

Riordan cites Campbell Soup for its effective use of outdoor, targeting specific soups to different regional markets. He adds that Colgate-Palmolive and Tide both used outdoor last year to introduce new products — a new dishwashing detergent and a new laundry detergent.

At Campbell Soup, Chris Meehan, brand sales manager for soup, adds a third reason for the appeal of outdoor.

"A lot of it has to do with efficiency, especially in an area like New York. Over the years we've increased our use of outdoor because we can reach our audience directly at a cost that's far below that of most other media. And we reach specific target groups."

Packaged goods aren't alone in making increased use of outdoor. The Outdoor Advertising Association of America, doing its bit to boost new categories, recently created its 300% Club: advertising categories that have increased their outdoor spending more than 300% in the past ten years. The entertainment and amusement, travel, business and consumer services, publishing and media and retail industries are all members.

Entertainment, for example, spent about \$22 million in 1978. Last year's

spending, however, was up to \$89 million. Spending last year for travel hit \$110 million, up 319% in ten years.

Business and consumer services — banking, insurance and real estate — spent about \$28 million ten years ago. But last year, the category reached \$127 million. Publishing and media has gone from \$21 million to \$95 million. Healthcare and related services spent \$32 million on outdoor last year, up from nothing five years ago.

The biggest increase of all was recorded by the retail industry, which has grown from \$5 million in 1978 to \$164 million last year. The retail industry now is the second-largest advertiser category in outdoor. But with every silver lining comes a cloud — industry executives complain loudly that the retail industry has firmly established its reputation for slow payment.

The increase in non-tobacco and non-liquor advertising has been deliberately plotted by outdoor companies. Once conditioned to be mere order takers by the rush of easy business from tobacco, the companies now are hiring new sales and marketing personnel and

beginning to offer services that were once unheard of.

The growth in regional and targeted marketing, for example, has led several outdoor firms to offer sophisticated computer-mapping services. Just a few years ago, such a request would have been met with blank stares. But now Gannett Outdoor and Patrick, with systems provided by Donnelley Marketing's Conquest, can enter your target into a computer and generate a map of areas and neighborhoods that meet your request. Overlayed on top of that will be the locations of their billboards.

"This is one of the tools that we need to be smart marketers," says John Hope, senior vice president, general manager of Gannett Outdoor Network USA. "We're seeing a lot of national advertisers begin to target their products more wisely."

"It's a great idea," agrees Bob Flood, out-of-home media director for DMB&B, St. Louis. "The mapping systems do an excellent job of pinpointing those areas that will target

your audience. But it falls apart if there are no boards available in those areas."

Gannett is also committing \$25 million to a capital spending program this year. Much of that money, Hope says, will be spent on erecting new structures and retrofitting existing ones to accommodate computer-painted posters. Many of the newer ones will be supported on a single pole (unipoles), enabling them to rotate. Much of the new construction, he says, will also incorporate back lighting.

Gannett is also launching a new 24-hour service hotline. Beginning in September, he says, any agency or advertiser will have a hot-line number to call in case of service difficulties. "If anyone sees a problem with a particular board and calls it in, we'll have someone on the spot to fix it within 24 hours," Hope says.

Despite the heavy level of investment and the increased services being provided by outdoor, no one in the industry is predicting unusually high increases. Gannett's Hope says a 4% to



TOP 10 OUTDOOR
ADVERTISERS—1988

FIRST QUARTER 1989

Advertiser	1988 (000)	Jan/Mar 1988 (000)	Jan/Mar 1989 (000)	% Change
Philip Morris Companies, Inc.	\$1,091,799.8	\$12,519.0	\$19,541.2	56.1
RJR Nabisco Inc.	457,735.3	14,348.9	13,977.4	- 2.6
Loews Corp.	69,321.3	7,955.3	9,951.4	25.1
BAT Industries PLC	100,069.6	5,063.2	9,970.6	96.9
General Motors Corp. Local Dealers	173,232.4	3,767.5	3,250.8	-13.7
American Brands Inc.	74,989.7	1,985.5	2,220.9	11.9
Seagram Co. Ltd.	105,357.3	1,460.1	1,628.0	11.5
Ford Motor Co. Local Dealers	147,345.7	2,076.1	2,241.2	8.0
Anheuser-Busch Cos. Inc.	369,735.8	1,022.4	696.6	-32.8
McDonalds Corp.	401,003.0	1,390.9	1,301.9	- 6.4

Source: Leading National Advertisers

6% increase is likely, citing the usual factors of materials, labor and real estate.

At Patrick, a similar increase is forecast, and it's very likely that they'll make good on it. Last year, Patrick didn't hike its prices at all, in an effort to increase its share of the business. But this year, its increasing debt load will force its hand.

Riordan wouldn't be surprised if prices shot up as much as 6%, but he points out that there's a big difference between what's printed on the rate card and what advertisers actually pay. Rates will continue to be negotiable, he says, depending on the size of the showing and the time committed for.

Outdoor companies may find some advertisers reluctant to go along with the price increases, particularly the very advertisers they've worked hard to entice.

Campbell's Meehan says, "We use outdoor where it makes sense, where we can get a rate that's below comparable media. But if outdoor prices go up much more, we'll probably increase our spending on in-store media. It's much less expensive, and it reaches the consumer just as they're ready to buy.

A supermarket costs us just \$20 a month."

One sign that rate increases will have more bite this year than in the past,

however, is the decreasing availability of boards. Changing zoning regulations have imposed a high rate of attrition on the industry. Structures will stay put at about 210,000 poster size and 50,000 bulletin size. And this year, increased interest in outdoor resulted in a sellout for the spring/summer peak season by February. That's fully a month earlier than the industry has

come to expect.

The increased interest in outdoor is also resulting in a boom for the eight-sheet industry. Smaller in size than traditional outdoor structures — measuring just six feet by 12 feet — eight-sheets were typically found only in built-up urban areas where it was difficult to construct larger signs or real-estate prices were prohibitive. Now, eight-sheets are finding their way into suburban neighborhoods.

One of the large eight-sheet firms is Gateway Outdoor. The Pittsburgh-based firm has more than 12,000 locations in seven markets. And today, about 30% of its signs are outside urban areas.

One of the big attractions of eight-sheets, according to Gateway president Robert Smith, is their cost. At an average cost of \$100 to \$110 per board, they're priced substantially below the cost of traditional posters, which now average about \$450 to \$500.

The relative strength of the markets is reflected in both revenues and anticipated price increases. Last year the price of eight-sheets went up 6%; this year, Smith says they'll go up yet another 6% to 8%. Revenues are up even more, moving from \$90 million in 1986 to \$99 million in 1987 and \$110 million last year.

The growth in new advertising categories for eight-sheets is quite similar to that of the larger structures. Tobacco remains the strongest category, and liquor now stands at number three. There's been steady growth in packaged goods, footwear, financial services and fast foods.

When it comes to regional marketing, eight-sheets, according to Smith, can take the concept a step further. "One of the big advantages of eight-sheets is their microtargeting capability, because they are so localized," he says. Marketers trying to reach the Hispanic market are especially enamored of eight-sheets, he says. Hair-care products for Blacks also use eight-sheets extensively, he says.

Advertisers are finding that eight-sheets can perform a variety of different roles and do them inexpensively, says David Zimmerman, national sales

8-SHEET OUTDOOR SALES

	National Sales (millions)	Total Sales (millions)
1986	\$43.4	\$90.0
1987	47.0	99.0
1988	53.0	110.0

Top Spenders
By Category 1988

Category	Spending (millions)
1. Tobacco	\$24.4
2. Liquor	12.2
3. Beers and soft drinks	4.8
4. Personal Care	2.9
5. Food	2.9

Source: 8-Sheet Advertising Association

director at Gateway. "Eight-sheets have both advertising and promotional value," he says. "You can tie eight-sheets together with point-of-purchase advertising by buying boards near stores," he explains. "And at a cost-per-thousand impressions of just 50¢, it's very tough to beat."

Packaged-goods marketers are also making their presence felt in other out-of-home media, such as in-store. Procter & Gamble, for example, has teamed up with Donnelley Marketing and CheckRobot in a joint venture called Advanced Promotion Technologies. The company, founded in December 1987, is developing two electronic systems to provide sales incentives at the checkout.

Early in-store incentive systems, developed in the mid '80s, dispensed printed coupons to buyers at kiosks located in the store. Most packaged-goods manufacturers experimented with the systems, but abandoned them when they found they were expensive and were unable to discriminate among long-term users, consumers seeking a bargain and those interested in trying

new products.

Catalina Marketing later developed a system connected to the scanning system at the checkout that could be programmed to dispense complimentary coupons (a customer buys hot dogs and the system prints a coupon for Pepsi). The Catalina system is widely regarded as a more successful approach to promotion than earlier systems.

Now comes APT, which has adopted the Catalina approach and added some bells and whistles. The Vision System, now being test marketed at five stores in Columbus, Ohio, Cleveland and Des Moines, uses a color-video display at checkout to alert customers to the coupons and values that apply to each purchase. Instant rebates are programmed into the system and advertised on the shelves.

Debora Collier, director of marketing services at APT, notes, "We realize that this type of promotion has come under attack by some marketers because it does little to build long-term brand loyalty." For that reason, she says, the company will launch this month an additional program that will

run on the same system. Called Vision Value Club, it is analogous to a frequent-flyer program. Shoppers are given smart cards, which are credit-card sized cards containing electronic chips, that are inserted into the Vision System during checkout. As purchases are scanned into the system, the Vision hardware awards points to the consumer for purchases of participating products. The points are redeemable for gifts described in a catalog.

Both of APT's systems are still undergoing development and market testing, and no prices have been determined yet.

It is likely, she said, that use of the system will tend to increase the promotional ties that exist between product marketers and retailers. "Not only will shoppers get points from the system for buying specific products, but they'll also get points for making repeated purchases at a store."

Conceptually, Collier admits, there's nothing new about awarding points: "It's just an electronic version of green stamps. But it eliminates having to lick stamps." ■

A CONVERSATION WITH BOB FLOOD

Bob Flood is out-of-home media director at D'Arcy Masius Benton & Bowles, St. Louis.

On rate card increases: "It's a hard guess what's on the minds of the outdoor companies. They've had rate increases of 4% to 6% for the past two or three years, so that's become something of a barometer. Not too many people have objected to that."

On negotiated rates: "I don't see any loss of negotiability. Our bargaining position varies with the season and how much is sold upfront. What we are seeing is that we're finding sold-out conditions in more markets, and we're reaching that stage much earlier."

On a potential tobacco ban: "Tobacco advertisers will hang in as long



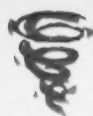
as they can. As far as the imposing regulation is concerned, the ball is in the government's court. Tobacco companies will continue to introduce new brands, to advertise and to promote as long as they can."

On new outdoor advertisers:

"Packaged goods are coming on strong in both in-store and outdoor advertising. The erosion of television — the splintering of that audience — is responsible in part. Television is no longer cost effective. Combine that with the ability to target specific groups using outdoor and the ability to target consumers in-store, and you have a much more cost-efficient medium."

On regional marketing: "Out-

door gives you the flexibility to reach any segment of the marketplace that you want, just like most local media. The problem that we're finding is that so many advertisers are discovering the advantages of out-of-home advertising that it's becoming very difficult in some markets to find available boards."



M E D I A C O S T S Y E L L O W P A G E S

NUMBERS, PLEASE

As publishers reach out for national ad dollars, their lack of objective research takes on greater importance.

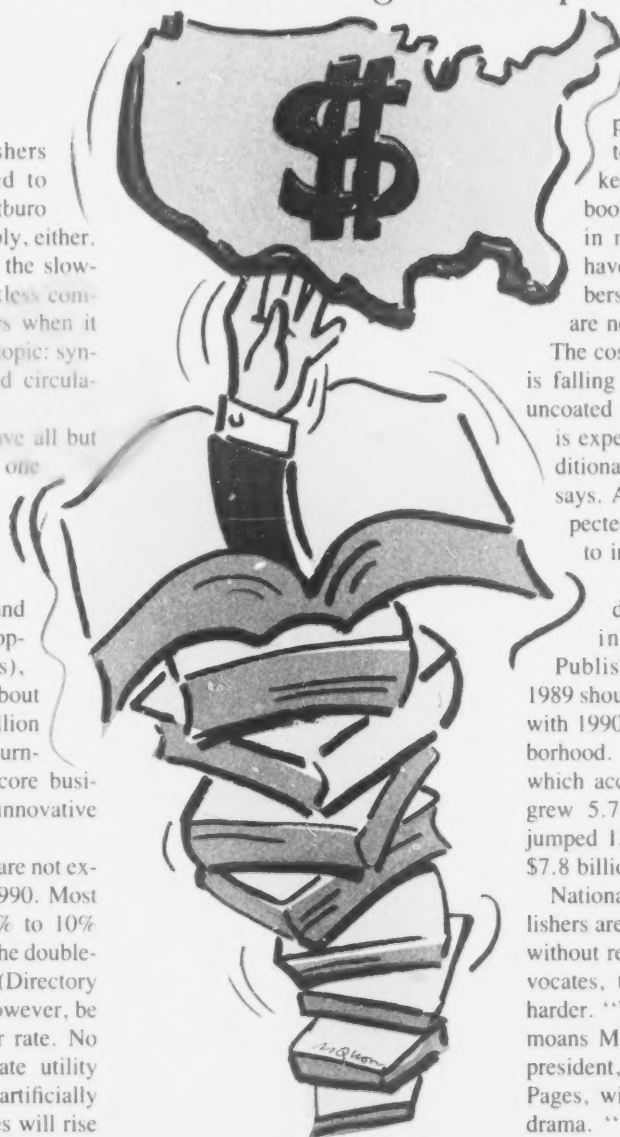
by Carol Hall

Yellow-pages publishers are being compared to members of the Politburo these days — and not favorably, either.

Some in the industry say the slow-to-change Soviets seem reckless compared to directory publishers when it comes to this industry's hot topic: syndicated research and audited circulation studies.

Meanwhile, publishers have all but abandoned new forays into one another's territory. Though there still is significant competition in about 25 markets among the traditional utility, independents and "invading" regional Bell operating companies (RBOCs), the RBOCs, responsible for about 75% of yellow-pages \$7.8 billion in annual revenues, are now turning their attention to their core businesses with a number of innovative marketing concepts.

In this environment, rates are not expected to rise too much in 1990. Most estimates come in at the 5% to 10% range, a lot more timid than the double-digit hikes of years past. (Directory charges in California will, however, be increasing at a much higher rate. No longer regulated by the state utility commission that kept them artificially low for years, some say rates will rise



12%. Pacific Bell says it expects to post increases of 2% to 9%, depending on the market.) So far, costs of utility books have not tended to jump in markets where competitors have pulled out. Directory numbers peaked in 1987 at 6,500 and are now at 6,200.

The cost of publishing yellow pages is falling somewhat too. The cost of uncoated groundwood directory stock is expected to be discounted an additional 5% next year, an observer says. And distribution costs are expected to remain stable, according to industry sources.

Growth figures for the industry look healthy. According to the Yellow Page Publishers Association (YPPA), 1989 should show 7.5% to 8% growth, with 1990's figures in the same neighborhood. Last year, local business, which accounts for 88% of revenues, grew 5.7%, while national business jumped 13.7%. Total at year-end was \$7.8 billion, up 6.6%, says the YPPA.

National advertising is the area publishers are eying for future growth, but without research, say the numbers advocates, the selling will come much harder. "We have enough problems," moans Mary MacDonald, senior vice president, director of DMB&B Yellow Pages, with the proper note of melodrama. "We don't have sight, sound

or motion, so at least give us the research. With every advertiser I know, this is a real sore point," she says.

Earlier this year, YPPA established a permanent research committee. Job #1: Look into the viability of syndicated research. Made up of people representing agencies, advertisers and publishers, it issued a report that caused a furor among agencies. The report said syndicated research is probably valuable for certain markets but not for the country as a whole. That's not what many wanted to hear.

Advertisers want two types of information. First, they want usage data: who uses the books, who uses the categories they advertise in, how often do they look in those categories, how often do they then actually make a purchase, etc. Beverly Hills, for instance, may rank 19th in importance to an advertiser because of population and average income, but plug in usage data, and it could fall off the list.

Advertisers also want some confirmation of circulation: Are all the books really being delivered? Delivery of phone books can involve temporary employees and rather informal arrangements. As one agency staffer says, "There's always the question of where the books really go."

Syndicated third-party research is antithetical to the free-market philosophy the seven regional Bell operating companies (RBOCs) have lived by since the divestiture of AT&T in 1984. As far as circulation went before the breakup, the Phone Company delivered the Phone Book. AT&T did heaps of usage research when it was a monopoly, but the RBOCs have since been emphasizing their differences.

Most of the RBOCs currently pay for outside firms to do usage research for their markets. "That's all fine and dandy, but obviously the source of the research is a problem: from the advertiser and agency standpoint," huffs Ed Schneck, senior vice president at Wahlstrom & Co., Foote, Cone &

Belding's yellow-pages unit. "We know that we do not see all of the data, we only see the 'good' data. Enough of this censorship."

Southwestern Bell and Bell Atlantic are mentioned by many as particularly resistant to national research. Some suspect they are so resistant because both are locked in heated competition with large independent publisher Reuben H. Donnelley in certain markets.

YELLOW PAGES' GROWTH AND REVENUES (BILLIONS)

Year	Total (billions)	National	Local
1980	3.8	.577	3.223
1988	7.78	.944	6.837
1987	7.3	.930	6.37
1986	6.5	.759	5.74
1985	5.9	.684	5.216
1984	4.9	.580	4.32
1983	4.2	.486	3.714
1982	3.8	.432	3.367
1981	3.3	.378	2.922
1980	2.9	.330	2.57

Source: Yellow Page Publishers Assn.

But the companies say otherwise. Bell Atlantic pays for the services of a dozen research firms. "Why do we have to go and spend more to tell our advertisers what they already know?" asks Bob Gilbert, director of sales planning. He adds that by buying their own, they can tailor the research to answer questions about their market.

Don Lottmann, vice president/marketing at Southwestern Bell Yellow Pages, says it recently hired SRI (Statistical Research Inc.) to study about ten of its markets, but sees no need for syndicated research. "Why should we incur a whole lot more cost and get fewer markets in the national study?"

U.S. West hasn't committed itself, but is seen as being open-minded on the subject. In fact, Pacific Bell is the only RBOC that has not only committed itself, but put its money where its mouthpiece is. It has just completed the

kind of syndicated research, using National Yellow Pages Monitor, that many want the industry to do nationwide.

Using the in-home diary method, the usage study covered 80% of Pacific Bell's territory and measured things like how often consumers used directories and what they did with the information. The study used MSAs (metropolitan statistical areas), groups of counties defined by the U.S. Census Bureau. "Pacific Bell has taken the lead," says Steve Troy, president of Ketchum Yellow Pages. "I think this is a big step for the industry."

One company, however, has completed a nationwide study of the industry. Directory Data, in an attempt to fashion itself as the A.C. Nielsen Co. of this medium, recently released results of its 1988 research. The company conducted phone interviews in 80 MSAs nationwide, spending \$2.5 million on this one-time effort in hopes of priming the pump for future business. The company says once startup costs are out of the way, the annual cost of the study should fall to about \$1.5 million. The annual cost per

publisher, depending on the size of its markets, would be around \$250,000. "It's peanuts for this industry to support this," notes Matt Cone, an account executive at Directory Data.

But that brings up another problem: Who pays? Agency people say their companies simply can't afford to pay for nationwide yellow-pages research every year and point to the fact that other media pay for their own. "Anybody who has a product has the duty to provide evidence of how well it works," asserts Blanche McQuire, vice president of market resources at Ketchum Yellow Pages. And with publisher profits estimated to be in the 20% range, many feel they can well afford it. Lee Mathews, president of Bernard Hodes Yellow Pages Service, a subsidiary of Omnicom, proposes that the cost can be shared commensurate with agency commission rates. Agencies

would pay roughly 25% of the total cost, publishers the rest.

Most agree the research issue won't be resolved anytime soon. Some feel there is hope in the fact that many publishers have installed new chief executives within the last couple of years: Pacific Bell, U.S. West, NYNEX, Southwestern Bell, among them. "There's an opportunity there to open their minds," says MacDonald.

A renewed focus on the home turf could also help the cause. Most regional Bell publishers have called a halt to the expeditions into new territories. "There hasn't been a major foray into other markets anywhere in the country in the last two years," says Ken Perry, director of product marketing planning at Bell Atlantic.

Home-focused publishers are now working on a host of ideas, many currently in trial, to strengthen their core books. Perhaps the one that has the industry most excited is Pacific Bell's tryout of "brand sell" advertising this summer in its Los Angeles and San Francisco directories. The ads, featuring products like Levi's jeans and Tedyne's Waterpik, highlight branded products, not retailers.

A number of publishers, including Pacific Bell, U.S. West and Southwestern Bell, also are trying "talking yellow pages," or audiotex. There are two kinds of talking pages: front-of-the-book and back-of-book.

In directory parlance, back-of-the-book refers to the advertiser listings, i.e. the bulk of the directory. A back-of-the-book audiotex buy involves a regular print ad, but features a retailer number shoppers can call to hear a recorded message concerning sales, new lines, etc. It's expensive, but publishers are hoping its appeal will be its elasticity. While printed yellow page ads stay the same for 12 months, advertisers can change an audiotex ad as often as they want.

Front-of-the-book audiotex, an idea that's been around for a couple of years and has been adopted by a number of independents, involves listings in the very front of a directory of information numbers, such as one for the weather or for stock quotes, each containing a brief plug for an advertiser. The utility books are still prevented by law from doing more than providing the linkup to the information. Therefore, as Southwestern Bell is doing in markets

in Texas, Kansas and Missouri, the publishers sell the pages to audiotex companies who then sell the ads to marketers. U.S. West is involved in a similar venture.

Mini-directories are being marketed by some utilities. Southwestern Bell, for instance, just began selling its "baby book," a shrunken version of the real thing, in book stores in Wichita, Kansas City and Lubbock. Retailing for \$6.95, the book is small enough to fit into a car glove compartment. That's important because Southwestern thinks its main customers will be cellular phone owners.

U.S. West is testing four-color display ads, full-page size down to one-quarter column. These can be printed anywhere in the book as they are on directory stock, not heavy or glossy paper.

Such experiments could mean a thaw in the publisher/advertiser Cold War. "The publishers are really looking at new opportunities to grow their businesses," says Ketchum's Steve Troy. "And that's good for us because, as long as we can do this in trial and it's inexpensive, we have everything to gain." ■

A CONVERSATION WITH ED SCHNECK

Ed Schneck is senior vice president of Wahlstrom & Co. (Foote, Cone & Belding's yellow-pages unit.)

On rate increases: "I see 1989 rate increases ending up at 6% and in 1990, probably 6% to 7%. Revenues are moving forward, but I don't think the industry has been growing as fast as it has for the last couple of years. There is some belt tightening. A fair number of clients are somewhat cautious in general, so in many cases yellow-pages budgets are holding the line or rising just with inflation."

On yellow pages' image: "One of the positive things we see, in line with the changing perception of the medium, is more traditional media-planning capabilities are being applied to



yellow-page buying. That is very positive from the advertisers' perspective, because the medium can be bought more effectively. And it elevates their perception of the value of the medium."

On audited circulation: "Some publishers do the auditing in a market for a single year and feel that is sufficient to prove the delivery. That's absolutely crazy. Publishers say the cost is too prohibitive to monitor distribution of every single directory. But through valid research techniques, a sampling of directories would be sufficient."

"Home, Sweet Home": "Competition between publishers is definitely dying down and publishers are turning their attention elsewhere. It was a free-for-all, with 'Let's go here and let's go there.' I think they've had some tough times in the market. There seems to be more of a focus now on enhancing their product within their own regions."

WEATHERING THE COST CRUNCH

Though direct mail's strong growth and demand are threatened by sky-high costs, alternatives offer limited comfort.

by Rebecca Fannin

For direct marketers, there is only a short lull in the storm before the winds pick up again. Mailers are still complaining about the hit they took from the 25% cost increase in third-class postage last year, while they are bracing for another 30% postal hike in 1991. Catalog mailers are even gloomier: They are preparing for a 30% to 40% jump, according to Dick Barton, senior vice president of government affairs at the Direct Marketing Association.

Because of the cost squall, many direct marketers are avidly searching for viable alternatives to the mail box, such as direct-response television and print advertising. But the cost of these media are on the rise as well — largely because of increased demand. And prices for telemarketing, a third option, may no longer be a bargain as the dust from phone deregulation settles.

The threat of additional postage hikes remains top-of-mind for the majority of direct marketers, however, be-

cause most believe that no other medium is as effective. Indeed, in spite of the increase in postage, which accounts for 30% of direct mailers' budgets, revenues are projected to rise by another 10% during 1989 to \$23 billion. The number of pieces mailed has slowed down from double-digit rates, but is still advancing at a steady pace of 4% last year and 5% during the first quarter of 1989, according to Bob Coen, sen-



ior vice president at McCann-Erickson. Plus, mailers are trying harder than ever to reach only the best sales prospects.

For its part, the U.S. Post Office attributes the large cost increases to higher overhead costs associated with handling larger and larger volumes of third-class mail. Volume has soared from 38 billion pieces mailed in 1984 to 62 billion last year.

Meanwhile, efforts to skirt the post office with alternate delivery haven't proved efficient or effective yet. Jack Miller, president of the Quill Corp., one of the first experimenters with alternate delivery, reports, "It hasn't saved money. There needs to be a higher volume to make it efficient. You just can't push a button and have it operate overnight." Quill had tried private delivery in the Midwest. Still, because future rate hikes are practically inevitable, Miller says that Quill will continue alternate-delivery tests. The last hike cost Quill some \$3 million more, or 30% of the direct marketer's budget.

At General Foods, the postal hike hasn't hurt tests of direct mail as a way to deliver coupons. But marketing director John Kuendig says the company was forced to cut the number of mailings and to research the most likely buyers more carefully. "We hadn't anticipated such a large postal hike, but now we have budgeted for it," says Kuendig, who's in charge of a two-year test to see if coupons mailed for Kool-Aid and Country Lite get better returns than those in newspapers and magazines.

The postal hike has caused many direct mailers to be more squeamish, however, and more anxious than ever to look at media alternatives. Instead of renting names for mailing, direct marketers are placing tv commercials and print ads so that they can compile their own internal lists. Often, owned lists are more productive because the prospects have at least responded to either the marketer's tv or print ad first. "We find that an inside list works 300 to 600 times better than a rented list, but of course you have to spend money to get that list and then manipulate the data on it," says Howard Draft, chairman of the board at Kobs & Draft Advertising Inc.

"Direct mail has softened, and it's no secret that mailers are looking to television as a quick fix to get new customers," says Richard Sangerman, senior vice president at A. Eicoff & Associates, a large firm in direct response tv. This medium is also gaining popularity as direct marketers find that shorter-length commercials can pull. The standard used to be 120 seconds, says Lynn Fantom, executive vice president and general manager at Kobs & Draft. But she says that the agency is finding greater efficiency with 60-second spots and is making 30-second commercials work as reminder ads.

Direct response tv is a highly negotiated medium because the time is extra inventory, which the stations must fill with spots or lose money. Most time is bought in spot tv, cable and syndication. The price per spot is often set by determining what cost level and response rate will make the

program profitable. And cost is key. "The cost that we pay for the spot is the most important variable in seeing if a program will pay out," says Fantom. "Audience size is not nearly as important." She adds that the agency is buying a 60-second spot at one-half the cost of a typical 30-second commercial.

"We negotiate tv direct-response prices in every single case," tells Marianne Branda, senior vice president and media director at Grey Direct. "We are already so low that we are paying 20% of a negotiated 30-second spot."

The medium, however, could grow more expensive as increased demand jacks up the prices. "I don't think that's going to be a problem," denies Eicoff's Sangerman. He points out that growth of cable and syndication has freed a lot of additional air time.

Costs are also going up next year for direct response in print, another in-

Calculating Catalogs Sample Working Budget For 1989

CREATIVE

1 Prelim. roughs & dummies @ \$46/page	\$ 4,968
2 Copy wireframes @ \$142/page	15,336
3 Tight comp. layouts @ \$120/page	12,960
	Subtotal = 33,264 (3.4%)
4 Contingency reserve @ 15%	4,990
	TOTAL = \$ 38,254 (3.7%)

ART & PREPARATION

1 Mechanical art/proof @ \$69/page	\$ 7,344
2 Typography w/Arts @ \$79/page	8,532
3 Repros. position prints, etc. @ \$30/page	3,240
4 Line spots & decorations @ \$12/page	1,296
5 Photography (4 pix/page) @ \$238/page	25,704
6 Model fees (30 shots total) @ \$22/page	2,376
7 Color separations (4/page) @ \$253/page	27,324
8 Cromalin proofs @ \$80/page	8,640
9 Stripped print films @ \$26/page	2,808
	Subtotal = 87,264 (8.9%)
10 Contingency reserve @ 7.5%	6,545
	TOTAL = \$ 93,809 (9.0%)

PRINTING & BINDING

1 250M catalogs (first quarter) @ \$248/M	\$ 62,000
2 Black plate changes (2) for price test @ \$800/net	1,600
3 500M catalogs (third quarter) @ \$227/M	113,500
4 1MM catalogs (fourth quarter) @ \$221/M	221,000
5 Orderform key changes (117) @ \$48 net	5,616
	Subtotal = 403,716 (41.1%)
6 Contingency reserve @ 2.5%	10,093
	TOTAL = \$ 413,809 (39.6%)

MAILING LISTS

1 Ctg buyers w/selects, 1536MM gross @ \$82	\$125,952
2 Subs. active & exp. w/selects, 525M gross @ \$51	26,775
3 Compld. files w/selects, 210M gross @ \$48	10,080
4 Allowance for duplications @ avg. 12.5%	(20,351)
	Subtotal = 142,456 (14.5%)
5 Contingency reserve @ 5%	7,123
	TOTAL = \$ 149,579 (14.3%)

COMPUTER PROCESSING

1 Reformatting, data conv. etc. @ \$4M	\$ 1,226
2 Merge/purge dupe elim. @ \$715/M	16,238
3 Code and run ches labels @ \$393/M	6,878
4 Misc. reports and analyses net cost	1,500
	Subtotal = 25,842 (2.6%)
5 Contingency reserve @ 10%	2,584
	TOTAL = \$ 28,426 (2.7%)

LETTERSHOP PRODUCTION

1 250M catalogs (first quarter) @ \$1715/M	\$ 4,288
2 500M catalogs (third quarter) @ \$1575/M	7,875
3 1MM catalogs (fourth quarter) @ \$1455/M	14,550
	Subtotal = 26,713 (2.7%)
4 Contingency reserve @ 7.5%	2,003
	TOTAL = \$ 28,716 (2.8%)

POSTAGE

1 First class, 3 lots of 10M @ \$710/M	\$ 21,300
2 Bulk rate, 172MM @ avg. \$105M	180,600
	Subtotal = 201,900 (20.6%)
3 Contingency reserve @ 10%	20,190
	TOTAL = \$ 222,090 (21.3%)

ALLOCATED FEES

1 Consultant(s) development—100 hrs @ \$125	\$ 12,500
2 Consultant(s) oversight & review—180 hrs @ \$88	15,840
3 Consultant(s) fulfillment & systems—290 hrs @ \$75	21,750
4 Est. travel phone express chgs other expenses	10,000
	Subtotal = 60,090 (6.1%)
5 Contingency reserve @ 15%	9,014
	TOTAL = \$ 69,104 (6.6%)

GRAND TOTAL = \$ 1,043,787 (100%)
GRAND TOTAL (less contingency reserves) = \$ 981,245 (100%)
CPM (with contingency) = \$ 596.45
CPM (without contingency) = \$ 560.71

Source: Sheel Apert, direct marketing consultant with Apert & (J) Ne-Tige & Co.

* Apert notes that 1989 budget figures are stable compared with 1988.

creasingly popular alternative to the mail box. "We are seeing increases of 7% to 8% for space advertising," says Howard Lelchuk, senior vice president and executive media director at Ogilvy & Mather Direct.

For the majority who remain loyal to the mail, however, the trend is to circumvent postal increases by turning to pre-sorting of envelopes and packages. Third-class charges \$167 for 1,000 items, but if those are sorted by a five-digit zip code before mailing, the cost drops to \$162. It drops considerably — to \$127 — if the five-digits are supplemented with four others to pinpoint the geographic area more specifically. If the sorting is done to correspond with mail carriers' routes, the price is reduced to \$101. "This discount is really important, and most mailers are trying to work with it," says Fantom at Kobs & Draft.

Major increases are not foreseen for the list-rental business, however, which is direct mailers' second-largest

LEADING U.S. COMPANIES RANKED IN WORLDWIDE SALES THROUGH MAIL ORDER

Company	Mail-order Sales (millions)	Sales Segment
1. United Services Automobile Association	\$ 2,180.4	Insurance
2. Time Inc.	1,997.1	Books, magazine subscriptions, cable tv
3. Sears, Roebuck & Company	1,596.7	General merchandise, insurance, auto clubs
4. Tele-Communications	1,468.0	Cable tv
5. GEICO	1,429.6	Insurance
6. Reader's Digest	1,420.0	Books, collectibles, general merchandise, magazine subscriptions
7. Otto Versand	1,384.1	General merchandise, sporting goods, apparel
8. Primercia	1,145.5	Audio-video, food, gardening, general merchandise, insurance
9. AT&T	1,132.2	Business services, consumer electronics
10. American Cable & Communications	1,066.8	Cable tv

Source: "1988 Guide to Mail Order Sales," Marketing Logistics Inc., Lincolnshire, Ill.

A CONVERSATION WITH HOWARD LELCHUK

Howard Lelchuk is a senior vice president and executive media director at Ogilvy & Mather Direct.

On costs for next year and the impact of the postal increase: "I don't think we will see an inflationary spiral of 10% to 12%. Because of the major increase in postal costs, suppliers are holding costs. They know that direct mailers won't be able to absorb other large increases."

On the impact of the postal increase: "Our clients are spending the same amount for direct mail, but they are mailing a lesser amount. The rates went up by more than 20% and postage is one-third of direct mailers' costs. So that becomes a 9% increase in the budget. No one had anticipated a postal hike of that magnitude."

On list rental costs: "This has been stable for the past few years.



Next year, we may see some kind of increase, perhaps 2% to 3% for 1,000 names. The average cost for 1,000 is about \$75. But list rental is a smaller part of the budget, not like paper and postage."

On the supremacy of the mail box: "In this age of targeting, there

is nothing better than direct mail. You can't pinpoint the target as much with other media. For instance, if you are using *Working Mother*, you can't guarantee that you will be reaching only working women with children — other people may be reading it. But if you rent a list that specifies that criteria, you can mail to them directly by name and address. There is more and more demand to segment lists further and find out more about the customer first."

On space advertising and direct-response television: "We're seeing increases of 7% to 8% in magazine space, which follows the charges in general advertising. A lot of our additional billings have gone into direct response television, but I don't think there will be an inflationary spiral of 10% to 12% rate increases. This medium is highly negotiable."

item on the budget. List managers say they fear that any additional charges beyond the large postal hike will put direct marketers out of business. "We want to create a little calm in this scenario," says Ralph Stevens, president of the list-management firm Woodruff-Stevens Assocs.

Another major reason, however, is that the list-rental business is only beginning to recover from a serious slide. Last year, list rental dropped by 40% to 50%, according to *DM News*, a trade publication. "We don't want to make it worse by adding more increases," acknowledges Stevens.

Direct marketers are frustrated that very few new prospective customers are being added to lists. "The names aren't flowing as they should, and it's tough to get fresh names," says Michael Fisher, a vice president with the Fingerhut Corp., which sells office furniture by direct mail. Fingerhut's strategy is to milk existing names and spend more in print ads to generate new ones. Prospecting outside the lists has grown from 13% in 1980 to 59% today.

There's also a drive to get more information about customers in the mail file. But adding demographic and psychographic factors to the names costs money. "You can usually rent names for about \$75 per 1,000, but when you begin adding on these selective criteria, it costs \$5 to \$10 more per CPM," says O&M's Lelchuk. "That is a big premium," he points out.

Some bargains can be enjoyed in list rental, however, as list managers begin to negotiate prices. Donn Rappaport, chairman of the American List Council, says mailers are negotiating for reduced costs when using the same list more than once. For example, a list that cost \$90 per 1,000 could be priced at \$60 for the second or third effort using the same names, Rappaport says. Bargaining is also occurring in net-name arrangements. Mailers are often charged for 85% of names even though some may be useless because they are duplicates from other rented lists. But this year, the American List Council has begun charging mailers a reduced percentage for those duplicate names.

Not all mailers intend to go along

with this practice, however. Shell Alpert, a direct marketing consultant with Alpert O'Neil Tigre & Co., points out that mailers are often reluctant to begin negotiating in an area that is so critical to their business.

"There is a lot of negotiating going on, but our prices will be firm," affirms Donald Wood, senior vice president at Donnelley Direct, with a list reaching 83 million households. Wood says rates next year should be 5% higher, but he doesn't believe the increase will hurt Donnelley's business.

Paper, another large cost factor for direct mailers, should be only a minor worry next year. Two increases in the 5% range were absorbed during 1988, but this year was calm. Only a 3% hike is foreseen for next year.

Other minor cost items in direct mailers' budgets should be stable. Alpert says printing, lettershop and creative costs should barely rise during 1989. But beware: Specialty printing jobs should cost 10% more next year,

and creative charges will soar by 20% in 1990, predicts Alpert.

As for marketers using the phones to obtain customer orders, prepare for a change. "The new competition to AT&T has kept prices low, particularly long-distance rates," says John Adams, president of Dial America Marketing, a major firm handling outbound calls for nearly 100 clients. "But I don't see too many more savings to enjoy over the next year. I think rates will be going up a little bit in 1989." Dial America Marketing charges \$30 an hour for manning the phones and renting phone lines.

Rates could also rise next year and beyond as a new development, automatic calling machines, become widespread. These machines call numbers at random until there is an answer. Then either a live operator or a recorded message plays advertising. "I think we will have to charge more for these because they will be more effective," says Adams. ■

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BRAND REPORT

NO. 163: SPORT/UTILITY VEHICLES

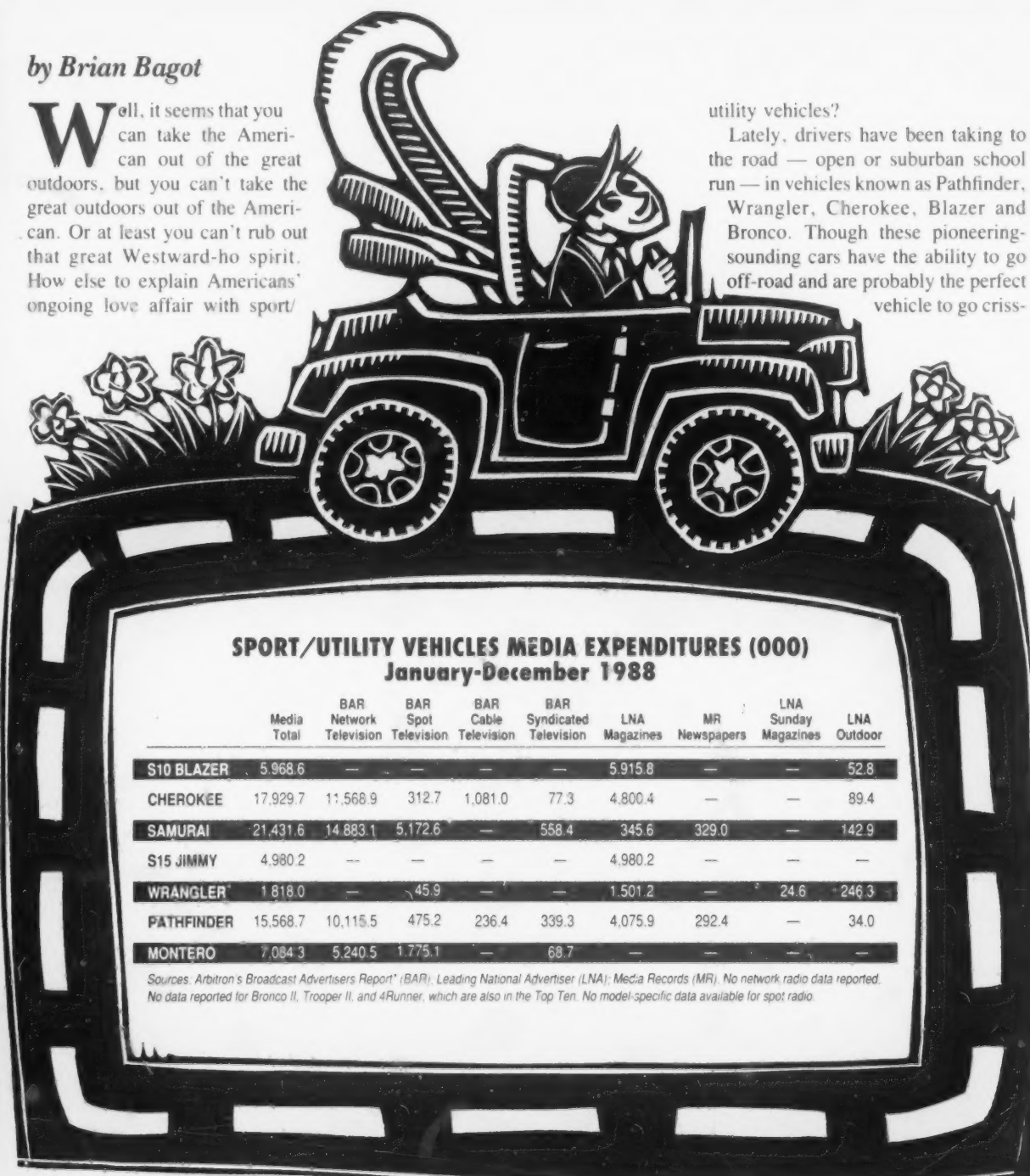
URBAN COWBOYS

by Brian Bagot

Well, it seems that you can take the American out of the great outdoors, but you can't take the great outdoors out of the American. Or at least you can't rub out that great Westward-ho spirit. How else to explain Americans' ongoing love affair with sport/

utility vehicles?

Lately, drivers have been taking to the road — open or suburban school run — in vehicles known as Pathfinder, Wrangler, Cherokee, Blazer and Bronco. Though these pioneering-sounding cars have the ability to go off-road and are probably the perfect vehicle to go criss-



crossing the Baja, it's obviously a more romantic than realistic notion. Last year, about 750,000 of these so-called sport/utility vehicles were sold, but only 10% make it off-road. It's the thought that counts, say the happy manufacturers, and that's what they're marketing — an image vehicle that does what a car can do, and more.

"The primary explanation for their growth is that they have become the new image vehicle," agrees Chris Cedergren, forecast manager for J.D. Powers & Associates. "The fact that it has four-wheel drive gives the prospective buyer a feeling, or it exudes an image that he is more adventuresome."

Manufacturers and other industry watchers add that SUVs conjure up a lifestyle image best described by adjectives such as active, adventurous, rugged and macho, even though they're mostly driven around town. And that image of four-wheelin' through valleys and streams is not just limited to men. The female market is putting the pedal to the metal and making up about one-third of the primary SUV drivers. This number is projected to reach 50% in the next several years.

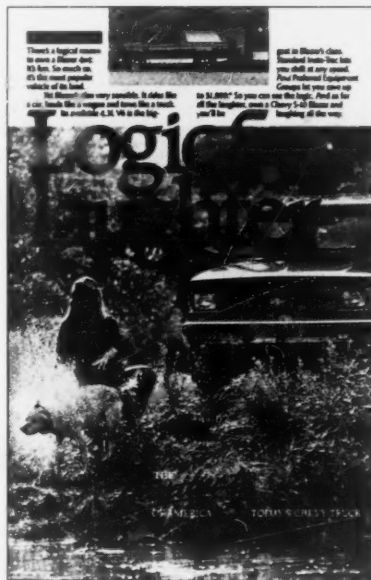
As Joseph Bohn, truck and recreational vehicle editor for *Automotive News*, points out, "Women feel safe in them because they have four-wheel-drive traction, and they feel more comfortable driving them in the winter." Besides the practical standpoint, Don Ceconi, advertising manager of trucks for Toyota Motors USA, explains, "Women have more pragmatic needs, but they still like to drive a vehicle that projects the image that they're out of the ordinary, that they're special and active people."

Recognizing that the category has been fueled by upscale, active lifestyle-oriented, college-educated couples, aged 25-49, some with children, who don't drive the vehicles off-road, producers are looking to accelerate sales by offering more car-like features. The vehicles are defined as trucks but are geared for comfort and luxury with toned-down suspension systems to soften rides, electric windows, automatic transmissions, CD players and other creature comforts that are leaving the traditional off-roader in the dust.

And it's here that the marketing trail comes to a fork, with advertisers taking

separate routes to reflect a lifestyle that appeals to the target demo. Some producers, like Jeep, whose leader, Cherokee, comes in number two in the ranking with about 150,000 units sold last year, use a rugged outdoor theme, while a Ford Bronco II tv ad targets women in a more urban setting. Bronco pulls into the category at number three, with approximately 124,000 units sold last year, according to J.D. Powers.

Many of the ads emphasize the fun of owning an SUV and tie their vehicles in with various promotions associated with an active lifestyle. Recently, Chevrolet ran cross-promotions with Skiview and the American Skiing Association, where they co-sponsor on-



Chevy is enhancing lifestyles with its S-10 Blazer.

site races and other activities that demonstrate the capabilities and versatility of the Blazer. Chevy's S-10 Blazer leads the pack with 185,000 units sold last year, according to Powers.

The media schedule is also pretty mixed, ranging from traditional off-road and car buff books to *Cosmopolitan*, *Better Homes and Gardens* and *Gourmet*. Television, unlike print, targets a wider demo, with most flights running on network prime, spot and evening fringe. But recognizing that about 74% of the buyers are male, heavy emphasis has also been placed on sporting events.

As families move more into this

market, all the leading makers of SUVs are planning to offer four-door models for the '90 editions. Currently, Cherokee has been able to get a virtual lock on this segment because of its four-door offerings.

The SUV market is broken into three size categories — full size, compact and sub-compact — with most of the action in the compact group led by the Chevrolet S-10 Blazer. In addition to being the most active, it also has the widest price spread. A Blazer can cost anywhere from around \$12,000 to the mid-twenties. The sub-compact category is relatively new but growing, primarily because of the attractive price range that starts around \$8,000. Vehicles in this range include the Jeep Wrangler, Geo Tracker, Suzuki Samurai and Isuzu Amigo. Full-size SUVs are harder to handle and too large to be considered a family automobile, although the Range Rover, a British import, is considered a status vehicle, with a price tag that averages around \$35,000. According to *Automotive News*, only about 3,427 Range Rovers were sold in the U.S. last year.

Pretty much the entire category got into a collision last year with *Consumer Reports*, which published several stories about SUVs and roll-overs. The article particularly singled out the Samurai and Bronco II, although the Ford never rolled over in the testing. However, the public viewed all this with all the concern given to a fender bender, and the category's popularity continues. Except for Suzuki's \$2 million campaign to counter the *Consumer Reports* story, makers of SUVs have shied away from mentioning safety, one way or the other, and attribute the roll-over accidents to driver error.

Following is a closer look at how the leading SUVs in unit sales, as ranked by J.D. Powers, are accelerating up the marketing mountain.

Chevrolet S-10 Blazer

The Chevy S-10 Blazer four-wheeled its way to the top of the category last year with about 185,000 units sold, according to J.D. Powers.

With the full-size Blazer being one of the early models in the category, the S-10 has been positioned as an evolution in the category, according to Patrick Burke, assistant manager of truck

merchandising for Chevrolet Motor Division. And with its car-like options that include tilt steering wheel, power windows and locks and reclining front bucket seats, the company is targeting first time truck buyers who are trading in cars for versatile vehicles with a slicker image than station wagons.

Chevy will offer a four-door S-10 for '90 as it tries to flag down active families and potential Cherokee buyers. The price tag will be in the \$20,000-\$23,000 range.

In a multi-media campaign from Lintas:Campbell-Ewald that cost nearly \$6 million in 1988, according to Leading National Advertisers, Chevy is taking the same creative approach as the "Heartbeat" tv commercials. That translates into ads characterized by quick cuts that depict lifestyles with the product. "It's really marketed as one of our automobiles, instead of the aggressive advertising we're doing with our trucks on the pick-up side," explains Candace Robbins, advertising manager for trucks. "What we try to show is that they enhance your lifestyle."



Support America's colleges. Because college is more than a place where young people are preparing for their future. It's where America is preparing for its future.

Give to the college of your choice.



Add.

1. Base Price \$13,700

2. Destination Charge \$400

3. Tax, Title, License \$300

4. Dealer Prep Charge \$200

5. Wheel and Tire Package \$200

6. Anti-Lock Braking System (ABS) \$200

7. Power Windows \$200

8. Power Locks \$200

9. Power Mirrors \$200

10. Power Seats \$200

11. Power Steering \$200

12. Power Windows \$200

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95. Power Seats \$200

96. Power Steering \$200

97. Power Windows \$200

98. Power Locks \$200

99. Power Mirrors \$200

100. Power Seats \$200

Then subtract.

SAVE \$100

SAVE \$800

SAVE \$600

SAVE \$300

177

Only in a Jeep

Jeep's rough-and-tumble image can be softened by a variety of cozy options.

Most of the tv spots ran in prime-time on shows such as *L.A. Law*, *Family Ties* and *Head of the Class*.

For print, the versatility of the vehicle is also emphasized in both off-road and street scenes. Magazine titles are diverse and include *People*, *Life*, *Car & Driver*, *Snowmobiler*, *House & Garden* and *Homeowner*.

With a base price for the four-wheel drive of \$13,700, competition for the S-10 is primarily Ford's Bronco II. But Nissan, Isuzu and Toyota are growing in the segment.

Jeep Cherokee

Jeep is so entrenched in four-wheel drive that it has just about become a generic term. It is on this tradition that the Chrysler division is building with its Cherokee line. Last year, the company sold 150,000 units, giving it about 22% of the SUV market.

The current theme, "Only in a Jeep," builds on the heritage but also stresses some modern technological advantages like full-time, shift-on-the-fly four-wheel drive and the most powerful engine in its class at 177 horsepower.

It's a "fact and emotion" approach, explains David L. Kerr, national advertising manager. As an example he points out that the tv copy is about what Cherokee offers, but as the commercial ends the Jeep goes off into a country or fun situation.

Cherokee is where Jeep's major ef-

fort is placed. Last year, about \$18 million was invested in the line, according to LNA. The campaign targets adults in the 25-49 age group, with household incomes around \$60,000, who are participants in outdoor recreation. "With Cherokee, specifically, we want to provide national coverage in our advertising," says Kerr. "We run consistently throughout the year, directed toward adult, upscale audiences."

The media mix is about 75% tv to 25% print, with prime-time balanced out with sports programming. Jeep is also tied into sports by being the official vehicles of the National Basketball Association, putting Jeep on every televised game by CBS and TBS, including the NBA championships.

Print for Cherokee cost about \$6 mil-

THE 4-WHEEL DRIVE VEHICLE FOR PEOPLE WHO LIKE TO VISIT WILDLIFE SANCTUARIES.

NEW FROM FORD & LINCOLN

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BRONCO II

4x4

Ford will be placing more emphasis on the female market.



Metro Harrisburg: Pennsylvania's Top Market in Retail Sales Per Household!

As the face of downtown Harrisburg takes on a new look, the growing suburbs of Pennsylvania's capital market have made metro Harrisburg the Commonwealth's number one market in retail sales per household.

According to Sales Management's 1989 Survey of Buying Power, Harrisburg ranks #1 in the Commonwealth of Pennsylvania in this important barometer of a market's retail activity, registering per household retail sales of \$21,322 in 1988.

A record-breaking retail year for many Harrisburg area stores was complemented by ground-breaking for a new Hilton convention and hotel complex, a major bank tower building, both part of the downtown's famous square, and the restoration of a third of the downtown retail space as part of the Phase II opening of Strawberry Square, a shopping-office complex.

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lion, according to LNA, and includes a diverse mix of titles, such as *4-Wheel & Off Road*, *Fortune*, *Forbes*, *Golf Digest* and *Golf Magazine*. Women are targeted also, with limited runs in *House & Garden* when funds are available, says Kerr. William Esty handles the creative and media buys.

The Cherokee is in the top-end of the market, with several price ranges available. The Limited is about \$22,000-\$25,000, while Laredo is in the high teens and the Pioneer comes in at about \$1,000 under that. A sport model is available for about \$16,300.

Ford Bronco II

Already, 35% of the Ford Bronco II's principal drivers are women, a stat which is expected to hit 50% once the four-door model comes on stream in '90. Ford is hoping to top its 124,000 Bronco II sales by tapping deeper into the female market and emphasizing the versatility of the Bronco II.

"The female market will become our target, and we'll be stressing some of the creature comforts of the vehicle," says Beryl Stajich, compact-truck marketing plans manager. "A woman can use the vehicle for around-the-town errands and shopping, but she can also use it for a trip to the golf club or a weekend ski trip into the mountains. Those are some of the things we'll be highlighting in our advertising campaign," he reveals.

As an example, one commercial from J. Walter Thompson has two men admiring a Bronco II parked in the general manager's space in a business lot. Their comments show they assume the owner is male, but the female general manager walks on screen and drives the Bronco away.

Although it's too early to talk about placement for the upcoming season, previous flights ran on major prime-time exposures, including *War and Remembrance*, *NFL Monday Night Football* and other sporting events.

Print titles included *Sports Illustrated* and *Cosmopolitan*, as well as the newsweeklies.

In addition to skewing a number of its ads towards the female market, the Bronco II will have a step-in height that's about three inches lower than current models to accommodate women drivers.

In the race to drive away with the young, upscale consumer, Bronco II's primary competition is the S-10 Blazer from Chevy. Ford's four-wheel drive model is also about \$1,200 less, with a base sticker price of \$12,500. The two-wheel drive Bronco II starts at \$11,000.

Suzuki Samurai

Although it was dubbed the Suzuki Kamikaze after a July '88 *Consumer Reports* story that concluded the Samurai had a propensity to roll over under certain driving conditions, sales for the vehicle were strong enough last year to place it at number four in the ranking. This also meant it was the largest selling sub-compact SUV, with 54,000 units sold. Initially, though, sales were negatively affected when the report came out. The Samurai normally sold about 7,000 units a month, but soon after the article, only about 2,000 vehicles a month were being carefully driven off the lots. But aggressive sales tactics, notably deep price cuts and a \$2,000 price discount program to dealers, brought sales back to respectable levels. One factor that helped turn around sales, according to a Suzuki spokesperson, was a report from the National Highway Traffic Safety Administration division of the Department of Transportation that seemed to exonerate the Samurai.

Suzuki also poured \$2 million into a defensive ad campaign. Created by keye/donna/pearlstein, the ads featured positive reviews from automotive magazines, such as *Car & Driver*, and departed from the "Never a dull moment" theme to help quell consumers' fears.

With a base price of \$8,495 for the soft top, the Samurai is positioned in the market as a fun, economical and practical vehicle either for the first-time

**Suzuki Samurai's
collision with
Consumer Reports
barely dented
the category.**

car buyer or the the sport/utility enthusiast aged 18 to 34. Its competition is primarily the new compact SUVs, such as the Isuzu Amigo and Geo Tracker in the \$8,000 range. The Jeep Wrangler is a step up in terms of price and more in line with the Sidekick, a more upscale companion of the Samurai.

Media expenditures for the Samurai in 1988 totaled \$21.4 million, according to LNA, and included \$11.6 million on network tv and \$5.6 million in magazines, which included outdoor enthusiast and car-buff books.

Nevertheless, the cloud of doubt still hangs over the Samurai. For the last nine months, most of the marketing effort has been placed on two new products, the Sidekick and the Swift, a high-performance mini-car. The reason for the shift, according to the spokesperson, was that "in most consumers' minds, the name Suzuki was synonymous with Samurai, so what we've had to do for the last nine months is sort of back-peddle and try to make the name Suzuki synonymous with other products, like Swift and Sidekick."

In addition, keye/donna/pearlstein is up for review, but is expected to continue through the summer.

Isuzu Trooper II

With its four-door Trooper II already on and off the road, Isuzu is running head-on into Cherokee with a comparison commercial. The "Weigh the Facts" spot from Della Femina, McNamee WCRS has the two vehicles on a see-saw, with an Isuzu spokesman (not Joe) going through several pros for buying a Trooper II. When he points out that the Trooper II is about \$1,000 less than Cherokee, the see-saw tilts in the Trooper's direction and catapults the Jeep to a crashing fate off screen.

The commercial, which runs during prime and fringe on all the networks and is backed up with heavy spot, is aimed right at consumers seriously considering one of the two vehicles, according to Leon Rosen, national marketing manager for American Isuzu Motors Inc. And it's this strategy that's going to play a big part in the next campaign to "more finely target our audience," says Rosen, who adds that they're after more upscale owners of expensive European or Japanese cars.

"The market that's growing for us is the young marrieds with kids, and what we're going to do is get a little more aggressive in our positioning," he says.

The print schedule for the '89 model, which covers a wide base but is skewed pretty much toward the male reader, includes *Sports Illustrated*, *Time*, *Newsweek* and *U.S. News & World Report*. But realizing that women are a growing segment of the market, Rosen notes that the '90 game plan calls for possible runs in some of

the shelter books, though he could not give titles. The print theme stresses the Trooper's versatility that comes with four-wheel drive and 72 cubic feet of cargo space.

Last year Isuzu went after the ski market by sponsoring the Women's Pro Ski Tour, and plans call for another year of sponsorship. "This covers the Snowbelt part of the country, which is our biggest Trooper market," states Rosen. The promo tied in with *Ski* and *Skiing* magazines.

The competitively priced Trooper II

We're on your customer's doorstep every day.

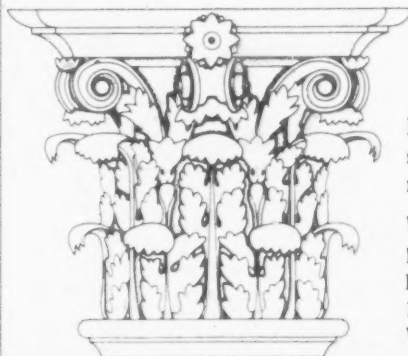
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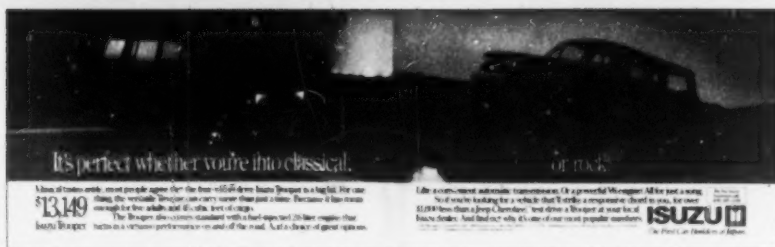


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Isuzu's two-page spread shows the versatility of the Trooper.

starts at \$11,000 and goes to \$19,000 fully-loaded with V6 automatic engine and all the whistles and bells that can be rung. Sales topped 60,000 last year.

GMC S-15 Jimmy

GMC, noting that 38% of the 45,000 S-15 Jimmys sold last year have female primary drivers, is concentrating heavily on this segment. "Last year was our first attempt at focusing on female buyers, and we've done that in print advertising in the women's service books. This year we'd like to go a little deeper," says Ed Messenger, light truck advertising manager for GMC. Titles include *Better Homes and Gardens*, *Good Housekeeping* and *Working Woman*. Messenger adds that *Cosmopolitan* and *Glamour* are up for consideration. Print consumed 69% of the budget, according to Messenger.

The one print execution by McCann-Erickson/Detroit depicts an affluent lifestyle, with the S-15 Jimmy in front of a large house. "It's portrayed as a fun vehicle and a vehicle that will en-

hance the buyer's lifestyle," notes Messenger.

A tv strategy for the 1990 model year has not been developed yet, but last year's campaign included spot market buys and network cable in the top 30 markets. Budget restrictions kept network out of the picture. "Right now there's not too much we can do besides product changes. And we're too close image-wise to Chevrolet, whose advertising is going to dominate people's minds, so we're really looking towards product feature changes and product changes to move our image," explains Kim Nielson, market research administrator for GMC Trucks. He would not comment on what product changes would be made.

But looking ahead to the new model year, GMC is cranking up to take off after Jeep Cherokee with its new four-door model. More print executions are planned, as is a direct-mail campaign.

With 45% of its buyers 18-to-34 years old, 37% in the 35-to-49 group and a price range of \$13,000 to \$18,000, the S-15 Jimmy is looking at stiff competition from the S-10 Blazer, Bronco II, Trooper II, Montero and 4Runner.

Jeep Wrangler

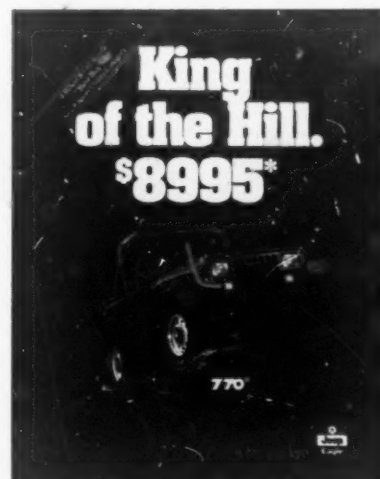
The Jeep Wrangler, the vehicle that most closely resembles what people think of as a Jeep, is targeted to a much younger group than the more upscale Cherokee. In print, it's the 18-to-24-year-old group with an individual income of \$25,000, while broadcast is a wider age spread that reaches up to the top of the demo with a \$40,000 income. "It's a younger group of people buying a less expensive car," explains Jeep's Kerr. And with a base price of \$8,995, Jeep corralled 43,000 Wrangler buyers in '88.

To do this, the company has main-

tained major programs in 16 large markets, including New York, Miami, Orlando, San Francisco, Philadelphia, Chicago and Los Angeles. These markets account for 65% of Wrangler's sales.

Unlike most of the others in the category, Jeep has used radio, primarily contemporary and rock formats, to get sales of Wrangler rolling along. "That's one of the advantages with radio -- we can target a lot more and hit the young people solidly," says Kerr. Jeep took a unique approach to matching up its four commercials from William Esty to the format. Station program managers were allowed to decide what commercials should run. "This went over extremely well," says Kerr. "We got a lot of letters saying that this was the first time anybody had ever asked their opinion on how to run the advertising."

Radio will be traded off for tv next



Jeep's sporty, less expensive Wrangler targets a younger demo.

year, a medium it's not been on for the past two years because of limited funds. The mix for the '90 model year should be 70%-75% tv, with the rest going to print.

The print approach will be lifestyle-oriented in books such as *Skiing*, *Sports Illustrated*, *Us*, *Premiere*, *People*, *Vanity Fair* and *GQ*.

The creative thrust for the past two years has named Wrangler "King of the Hill" as it tries to fend off throne-vaulters that include Samurai, Sidekick, Geo Tracker, Montero and Isuzu Amigo.



Women's books make the list for GMC's Jimmy.

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MARKETING & MEDIA DECISIONS

Nissan Pathfinder

With last year's "Road to Rio" campaign showing a suburban Chicago couple taking the high and low roads to Rio de Janeiro in a Pathfinder, Nissan hit an adventurous chord with SUV buyers and brought its sales to the 30,000 unit mark, according to J.D. Powers. But John Rinek, national advertising creative manager for Nissan, thinks the sales could have been even higher if the campaign, created by Chiat/Day/Mojo, ran all year. "We had an instant sales increase and prevailed for a number of months," he says. "We will be much more consistent throughout the year in advertising the Pathfinder."



Nissan tracked a couple and their Pathfinder on the rocky road to Rio de Janeiro.

The car's \$16,000-\$21,000 range puts it in the upper end of the category as Nissan targets the upscale consumer against Cherokee, 4Runner, S-10 Blazer and the Bronco II.

The marketing thrust for the '90 model will be on the four-door version targeted to adventurous families as the vehicle replaces the more conservative station wagon. "It's their orientation and their lifestyle that are the key buying determinants in this area," says Rinek.

The print campaign, which cost about \$3 million according to LNA, plays on this sense of adventure and

shows the Pathfinder in off-road use that demonstrates the potential of the vehicle rather than in a suburban setting. "Even if they never drive off-road, that's the imagery the consumer is buying into," says Rinek. Titles tend to be primarily enthusiast magazines, such as *Skin Diver*, *Car & Driver* and *Boating*, but also included *GQ* and *Condé Nast Traveler*.

Tv commercials ran on spot, cable and syndication, but the bulk of the \$15.6 million total last year, according to LNA, went to network, which ran up a tab of \$10 million. Flights ran on *NFL Monday Night Football*, college football, *Cheers* and *thirtysomething*.

Toyota 4Runner

Toyota is focusing its efforts on the four-door segment, with its 4Runner coming in a little under the Cherokee with a base price ranging between \$15,458 to \$17,998. With added options like air conditioning and CD player, the price tag can go into the high twenties.

The four-door is targeted pretty much to young, well-educated marrieds looking for an adventurous image in everyday driving, while the two-door is slated for single males.

The marketing strategy, according to Don Cecconi, advertising manager of trucks for Toyota Motors USA, consists of a "pretty solid program of network television buys." The mix also includes spot tv and magazines that include regional books, *Newsweek*, *Time*, *Esquire* and *Sports Illustrated*. Women are also targeted, particularly with the four-door model, in *Bon Appetit* and *Country Living*.

"This shows we're broadening out a little bit from traditional truck coverage. Women are a driving force in this market, and they see the need to project a special kind of image as well as men do," states Cecconi.

The print campaign from Saatchi & Saatchi DFS Pacific helped move 29,000 4Runners last year. It shows the vehicle off the beaten path and projects an adventurous lifestyle. The copy also points out Toyota dependability, V6 power and car-like amenities.

Mitsubishi Montero

Down on the bottom of the ranking by unit sales, with 9,000 sold in 1988

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Publisher, BON APPETIT

MARKETING & MEDIA DECISIONS

TOYOTA

[illegible]

Introducing the 4Door 4Runner

and 5,200 through May '89. Montero has a long haul to reach the number-nine spot. But the road ahead looks smoother, according to Mike Nash, vice president of marketing services for Mitsubishi Motor Sales of America, who blames the slow sales on the automaker's preoccupation with two

other autos — the Eclipse and Gallant. "It's just where it sits in the priorities," claims Nash. "And it will get a definite lift next year. Mitsubishi had four great products this year, and when you're a 170,000-unit company, there are only so many bucks you can spend."

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MITSUBISHI
MONTERO

For sale: Mitsubishi's Montero, with a view.

way we've been using newsweeklies to communicate that we have this vehicle on the market."

One commercial that's in the planning stages will take place in an affluent suburb, with a father washing his Montero and his daughter grooming her horse to create a contrasting workhorse/showhorse image for the well-rounded vehicle, according to Mike Nash. "It's a very upscale thing, and I think that's really the positioning of it," he says of Montero's message. ■

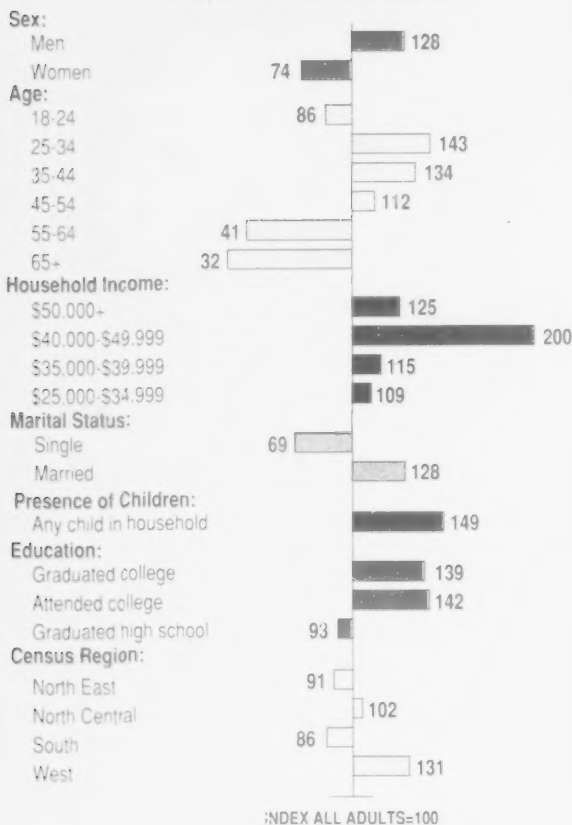


BRAND REPORT INDEX

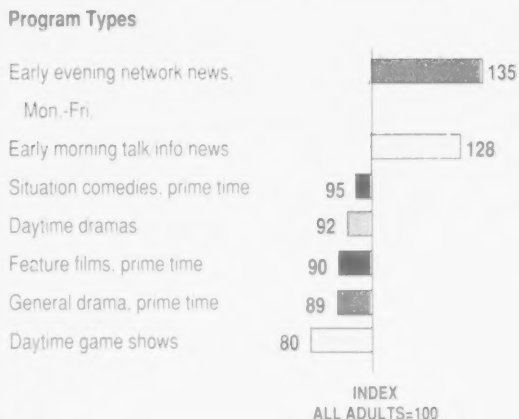
SPORT/UTILITY VEHICLES

How to read: Our indices of user demographics and media preferences are used to indicate the direction and amount of difference from the average. The index of the average is, by definition, 100. Thus, an index of 112 reflects a 12% above-average incidence. An index of 89 indicates an 11% below-average incidence.

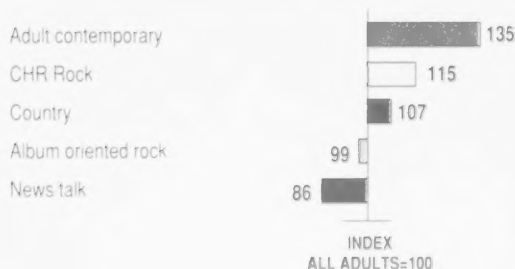
KEY DEMOGRAPHICS OF SPORT/UTILITY VEHICLES



VIEWING OF TV PROGRAM TYPES AMONG SPORT/UTILITY VEHICLE OWNERS

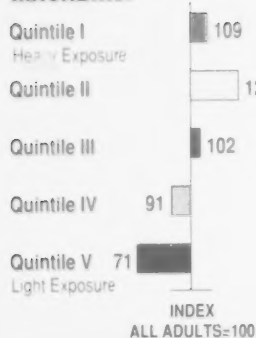


RADIO LISTENING—FORMATS

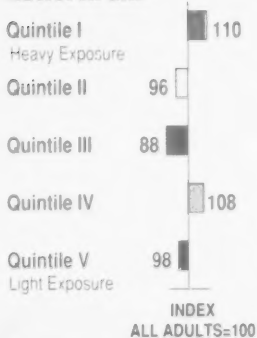


MEDIA EXPOSURE AMONG SPORT/UTILITY VEHICLE OWNERS

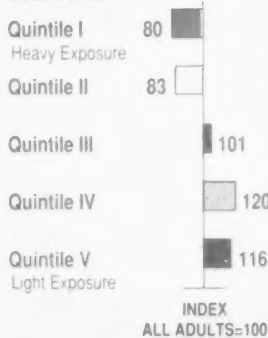
MAGAZINES



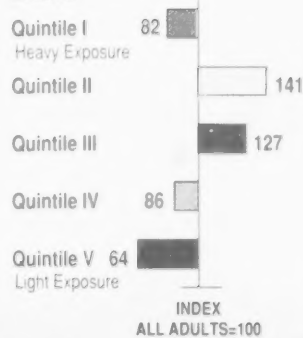
NEWSPAPERS



TELEVISION



RADIO



ECONOMIC EYE

WIRED

To no one's surprise, cable penetration showed continued growth in May. According to Nielsen, 50.2 million U.S. households (55.6% of the country) are now cable ready. Ten years ago only 18.8% of U.S. households, excluding Alaska, were wired for cable. Cable penetration had reached 42.5% in 1984.

MAGAZINE AD SCORECARD

	Ad Pages June 1989	% change from June 1988	Dollars spent ('000)	% change from 1988
1. Skin care, Creams, Lotions and Oils	208.37	106.9	8,029.3	163.7
2. Lip and Eye Beauty Products	88.31	-20.2	3,595.6	-22.8
3. Scents and Fragrances	53.66	-61.6	1,550.3	-54.9
4. Facial Makeup Products	61.88	14.4	2,389.9	39.4
5. Prepared Dinners and Entrees (including pizzas)	21.65	31.6	1,565.8	28.2
6. Liquor	419.95	-6.0	18,592.4	-2.9
7. Cigarettes	622.91	3.2	32,349.3	6.7
8. Soaps and Detergents	44.31	3.3	3,623.7	28.8
9. Passenger Cars, Domestic	597.50	8.3	28,386.7	33.6
10. Passenger Cars, Imported	580.84	19.0	28,331.2	4.00

Source: Publishers Information Bureau as prepared by Leading National Advertisers.

MEDIA COST INDEX

1985 = 100

	1988								1989							
	Sept.	% change	Oct.	% change	Nov.	% change	Dec.	% change	Jan.	% change	Feb.	% change	March	% change	Apr.	% change
Network TV																
Daytime	146	+60	82	-16	80	-14	73	-10	77	-17	68	-15	68	-15	72	-7
Nighttime	118	+11	114	-9	113	-2	109	-2	122	+8	120	-19	125	+11	112	+13
Spot TV																
Prime time	141	+14	128	+6	104	+3	129	+5	141	+10	127	-2	125	-4	-	-
Daytime	107	+4	106	-5	102	-10	99	-6	116	-5	120	+11	97	-1	-	-
Network radio	112	+5	131	+8	125	+10	119	+12	158	+8	142	+10	139	+15	128	+10
Spot radio	105	+2	-	-	-	-	110	-3	-	-	-	-	118	+12	-	-
Consumer magazines	116	+6	115	+5	118	+6	119	+6	122	+6	122	+6	122	+6	122	+6
Natl. Sunday magazines	130	+10	130	+10	130	+10	130	+10	129	+10	129	+10	129	+10	129	+10
Business publications	118	+6	118	+5	120	+6	120	+7	119	+2	119	+2	119	+2	119	+2
Newspapers	123	+7	124	+7	124	+7	124	+7	131	+5	131	+6	131	+6	132	+6
Outdoor	123	+8	137	+11	137	+11	137	+11	137	+11	137	+11	137	+11	137	+11

Notes: Percentage shown is relative change from the same month period the year before.

*Revised

Sources:

Nighttime Network TV- Cost per average 30-second spot, 7:30-11 p.m. Monday-Saturday and 7-11 p.m. Sunday from Broadcast Advertisers Reports (BAR) Network TV Service.

Daytime Network TV- Cost per average 30-second spot, 10 a.m.-4:30 p.m. Monday-Friday from BAR's Network TV Service.

Network Radio- Cost per average 30-second radio announcement from BAR's Network Radio Service.

Consumer Magazines estimate based on reported SRDS cost of a page, four-color in 40 national consumer magazines, as reported by Magazine Publishers Assn.

National Sunday Mags estimate based on published (rate cards) costs of a page, four-color in the national entries.

Daily Newspapers estimate based on Newspaper Advertising Bureau report of SRDS costs per column inch of a sample of 784 newspapers weighted to represent the universe.

Outdoor Posters based on estimate prepared by Institute of Outdoor Advertising.

Spot Radio index represents cost of a 60-second spot in the top 100 markets from data supplied to Radio Expenditure Reports by major radio representatives.

Business Publications estimates based on reported SRDS cost of a page, four-color in 48 publications representing 42 business and professional classifications.